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# Global health and foreign policy: strategic opportunities and challenges

## Note by the Secretary-General

The Secretary-General has the honour to transmit a report prepared in collaboration with the Director-General of the World Health Organization and after consultations with Member States, pursuant to General Assembly resolution 63/33.

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*Summary*

On 26 November 2009, the General Assembly adopted resolution 63/33 on global health and foreign policy, in which it recognized the close relationship between and interdependence of foreign policy and global health; urged Member States to consider health issues in the formulation of foreign policy; and stressed the importance of achieving the health-related Millennium Development Goals. The Assembly requested that the Secretary-General, in close collaboration with the Director-General of the World Health Organization and in consultation with Member States, submit to the Assembly at its sixty-fourth session, in 2009, a comprehensive report, with recommendations, on challenges, activities and initiatives related to foreign policy and global health, taking into account the outcome of the annual ministerial review held by the Economic and Social Council in 2009.

The present report examines the interlinkages between health, poverty alleviation and development, as well as the role of health in the formulation and implementation of foreign policy. Global health touches upon all the core functions of foreign policy: achieving security, creating economic wealth, supporting development in low-income countries and protecting human dignity. Government and non-Government stakeholders have started to recognize the strategic value of how and why the foreign policy community's support for the health sector is vital for advancing both. The need for increased foreign policy and diplomatic activities on global health problems has created opportunities and challenges for those who shape the foreign and health policies of Member States.

The report identifies the health-related challenges that must be addressed by foreign policymakers and the key foreign policy issues that have a significant impact on health. Health-related challenges include:

- Addressing the role of health in national and global security
- Meeting the health-related Millennium Development Goals
- Ensuring access to and affordability of medicines
- Controlling emerging infectious diseases, including sharing biological materials with pathogenic potential, and increasing access to vaccines, drugs and other benefits
- Bolstering international support for strengthening health systems
- Addressing the challenges facing global health governance
- Integrating health into all policies and addressing non-communicable diseases.

Foreign policy issues that affect global health include:

- Security, arms control, armed conflict and post-conflict challenges
- The global economic and financial crisis
- Natural disasters and emergency response
- Climate change
- Food insecurity

- The promotion of health as a human right
- Migration.

The present report also documents a range of activities and initiatives related to foreign policy and global health. The conclusions acknowledge the heightened importance of global health issues in foreign policy; emphasize the need for a more thorough understanding of the relationship between the two; and stress the need for more coherence between Member States' foreign and health policies.

The report presents a number of recommendations that Member States might consider when addressing the issue of foreign policy and global health. The recommendations are organized into five main areas:

- Identify priority global health issues that require foreign policy action and determine how national, regional and global health efforts can contribute to achieving foreign policy goals
- Strengthen the political and institutional foundations for foreign policy action on global health
- Increase the quantity and quality of health information and conduct more joint assessments of foreign policy actions on global health and of global health diplomacy
- Heighten the involvement of, and policy coherence among, diplomatic forums in improving foreign policy efforts on global health
- Train more diplomats and health officials in global health diplomacy and develop training standards and open-source information, education and training resources for this purpose.

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# I. Background and context

1. As the report of the Secretary-General on implementing the internationally agreed goals and commitments in regard to global public health (E/2009/81) states, "health is at the heart of the Millennium Development Goals. It is the specific subject of three Goals and a critical precondition for progress on most of them". Similarly, the ministerial declaration on implementing the internationally agreed goals and commitments in regard to global public health adopted at the 2009 high-level segment of the Economic and Social Council (A/64/3, para. 56) clearly articulates the significant interlinkages between health outcomes and a number of sectoral interests that are at the heart of national and international stability such as economic productivity and protecting the most vulnerable in times of crisis (economic crisis, food crisis, climate change, conflicts and natural disasters).

2. Over the past decade, the frequency, severity and political significance of global health problems have produced more awareness and action by countries, international organizations and non-governmental actors on health issues than at any other time in history. Countries have faced the HIV/AIDS pandemic; experienced biological terrorism; responded to the spread of novel viruses; developed initiatives to address the increasing prevalence of non-communicable diseases; embedded health more deeply into development strategies; and increased understanding of the social determinants of health. In addition, policymakers have addressed health dangers arising from armed conflicts, global economic instability, environmental degradation and insecure access to energy and food supplies.

3. These responses to global health challenges are underpinned by the transformation of health from a specialized, technical area into a political and economic concern central to Governments and societies and by the increasing interdependence between health and non-health policy sectors. Independent commissions established by the World Health Organization (WHO), such as the Commission on Macroeconomics and Health and the Commission on Social Determinants of Health, have documented the importance of health in all areas of public policy, including foreign policy.

4. Multisectoral approaches are required to address the complex nature of global health, achieve results and contribute to social stability. These approaches should reflect the close relationship between health and human rights, poverty eradication, hunger and nutrition, education, gender equality, the reduction of inequities and sustainable development.

5. Although health has long been a subject of diplomatic efforts and negotiations among States, in particular with respect to addressing infectious diseases, trade and aid effectiveness, the significance of global health for foreign policy has increased. Global health interacts with the core functions of foreign policy: achieving security, creating economic wealth, supporting development in low-income countries and protecting human dignity. The unprecedented need for increased policy, diplomatic and advocacy activities to identify solutions to global health problems has created challenges and opportunities for those who shape the foreign policies of Member States.

6. In response, foreign policymakers have increasingly addressed and emphasized health through initiatives such as the Millennium Development Goals and the special sessions of the General Assembly on HIV/AIDS and through broader

strategies on development assistance such as the Monterrey Consensus,[1] the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (A/63/539, annex). Global health is a growing feature of foreign policy, as can be seen from negotiations and treaties on health problems. Examples include the adoption of the International Health Regulations (2005), the WHO Framework Convention on Tobacco Control and intergovernmental negotiations on public health, innovation and intellectual property and on pandemic influenza preparedness, all of which were negotiated in the World Health Assembly.[2]

7. Reflecting on the growing intersection of foreign policy and global health, the General Assembly adopted resolution 63/33 on 26 November 2008, which recognized the close relationship between foreign policy and global health and their interdependence. That resolution focused on the need to strengthen the foreign policy processes of United Nations Member States concerning global health challenges within the United Nations system, in other intergovernmental settings, as part of regional and bilateral relations, and through partnerships with non-governmental entities. It further recognized the leading role of the World Health Organization and its roles and functions with regard to health policy in accordance with its mandate.

8. Co-sponsored by 50 Member States, the resolution highlighted the link between foreign policy and global health and underscored the necessity for greater foreign policy awareness and action on issues affecting health. The General Assembly urged Member States to consider health issues in the formulation of foreign policy; stressed the importance of achieving the health-related Millennium Development Goals; and called for enhanced coordination within the United Nations system on global health issues (resolution 63/33, paras. 2-4).

9. The resolution requested the Secretary-General, in close collaboration with the Director-General of WHO and in consultation with United Nations Member States, to prepare the present report, which examines key challenges facing global health as a foreign policy objective, describes initiatives and activities that attempt to improve how foreign policy processes incorporate and advance global health and makes recommendations for strengthening global health as a strategic foreign policy interest of Member States (resolution 63/33, para. 5).

## II. Priority global health issues for foreign policymakers

10. Consultations with Member States, the Office of the Secretary-General, concerned United Nations agencies and WHO helped to reveal which issues should receive priority in strengthening the foreign policy contribution to global health. The present report was also informed by the outcome of the 2009 annual ministerial review of the Economic and Social Council on implementing the internationally agreed goals and commitments in regard to global public health.

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[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[2] World Health Assembly resolutions WHA56.1, WHA58.3 and WHA61.21.

## A. Health-related challenges facing foreign policymakers

11. The consultation process revealed that more and better foreign policy advocacy and engagement regarding seven key health-related problems could improve collective action on global health and, potentially, global health outcomes.

### 1. Addressing the role of health in national and global security

12. In an era of rapid global travel, extensive migration and increased urbanization, the frequency and number of new and re-emerging health threats that can quickly spread across borders and significantly affect societies and economies have grown. Pandemic influenza A (H1N1) is the latest in a series of such threats. In addressing these threats, Governments and international organizations have learned that protecting individuals and societies against pathogens, unsafe products, pollutants and fallout from natural disasters and humanitarian crises requires high-level political commitment, intervention and coordination. A number of risks, particularly those stemming from infectious diseases, such as HIV/AIDS, influenza A (H5N1), pandemic influenza A (H1N1) and antimicrobial resistance, and from biological terrorism, are now frequently framed as security problems, requiring a health and foreign policy response. For example, the Security Council's willingness, in 2000, to address HIV/AIDS as a threat to international peace and security highlighted this new dimension of foreign policy. These issues are of relevance to Ministries of Foreign Affairs because they have a responsibility to address the security threats facing their own countries and the international community.

### 2. Meeting the health-related Millennium Development Goals

13. The Millennium Development Goals are the leading framework for United Nations system efforts to advance human development. Three of the eight Goals are health-related, namely to combat HIV/AIDS, tuberculosis and malaria; reduce child mortality; and improve maternal health. The monitoring of the progress towards achieving these Goals has shown that specific goals and targets will not be met by 2015, without significant attempts to strengthen efforts. In its resolution 63/33, the General Assembly therefore emphasized the importance of achieving the health-related Millennium Development Goals (para. 3). The political commitment and economic resources needed for this strategy can best be summoned through high-level foreign policy action by States. Many summit declarations relevant to the achievement of the Millennium Development Goals, such as those made by the Group of Eight and the Group of Twenty, require foreign policy attention and political commitment.

### 3. Ensuring access to and affordability of medicines

14. Ensuring rapid development and dissemination of information, health technologies, medicines and vaccines and ensuring accessibility by the world's poor and most vulnerable populations remains a serious challenge that requires significant foreign policy involvement, especially in the context of intergovernmental negotiations. This involves trade issues, policies to foster innovation and support for enhanced development policies to ensure sustainable financing and more effective supply chains.

15. The report by the WHO-convened Intergovernmental Working Group on Public Health, Innovation and Intellectual Property and the associated global strategy and plan of action were successfully negotiated by a large number of stakeholders seeking to create a supportive environment for future innovations. The action plan outlines a medium-term framework to secure an enhanced and sustainable basis for needs-driven, essential health research and development for diseases disproportionately affecting developing countries.[3]

16. A number of negotiated multilateral agreements and subsequent bilateral and regional agreements have had a significant impact on increasing access to medicines. These include the World Trade Organization agreements that have implications for health, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the Agreement on Technical Barriers to Trade and the General Agreement on Trade in Services (GATS). These agreements address the issue of patent protection of medicines and other health-related products and its potential impact on their affordability and accessibility. The Fourth Ministerial Conference of the World Trade Organization held in Doha in November 2001 adopted a declaration allowing members to take measures to protect public health; a waiver granting this flexibility was adopted on 30 August 2003. These agreements and measures equally have implications for traditional medicine. The ministerial declaration on implementing the internationally agreed goals and commitments in regard to global public health adopted by the Economic and Social Council further reaffirmed the right to use, to the full, the provisions contained in the TRIPS Agreement.

### 4. Controlling emerging infectious diseases, including sharing biological materials with pathogenic potential, and increasing access to vaccines, drugs and other benefits

17. The recent influenza A (H1N1) pandemic is a reminder that diseases know no borders and that collective, global action is required to deal with them. The current situation, in particular, has once again made it clear that preparedness and timely information are key to managing and containing potential pandemics. The WHO International Health Regulations (2005) are an example of a critical international compact that delineates the key obligations of countries and of WHO in responding to any public health emergency of international concern, whether it is of biological, chemical or radiological origin. The Regulations enhance the ability of countries to rapidly identify, define and respond to emerging health threats.

18. In order to improve the response to and preparedness for future outbreaks, the international community must take three immediate steps. Firstly, States must reach agreement on sharing samples of viral and other materials and data on outbreaks, in line with the International Health Regulations (2005). Secondly, they must agree to establish coordinated long-term financing mechanisms for supporting poorer countries, so that they are able to build their defences against global health threats. Thirdly, they must ensure that WHO and United Nations partners have all the resources they need, on a timely basis, to fulfil their obligations under the International Health Regulations (2005).

[3] See World Health Assembly Document A61/9 and World Health Assembly resolution WHA61.21.

19. However, global efforts to craft surveillance and response capabilities against avian influenza A (H5N1) have been complicated by disagreements among countries on sharing samples of biological materials and the benefits (vaccines, drugs, diagnostics) that might arise from conducting research on such samples.

20. The complexity of the political, economic and epidemiological factors affecting this issue requires the involvement and negotiating skills of foreign ministries, which must work with public health experts to achieve the required balance between sharing biological materials for surveillance purposes and improving access to benefits derived from such materials, especially for low-income countries. The ministerial declaration of the 2009 high-level segment of the Economic and Social Council on implementing the internationally agreed goals and commitments in regard to global public health recognized the need for a fair, transparent, equitable and efficient framework for the sharing of H5N1 and other influenza viruses with human pandemic potential, and for the sharing of benefits, including access to and distribution of affordable diagnostics and treatments, including vaccines, to those in need, especially in developing countries, in a timely manner. It further called for strengthening surveillance and response capacity at the national, regional and international levels through the full implementation of the International Health Regulations.

21. Support and engagement on the part of the foreign policy community can aid WHO and Member States in their efforts to craft a framework for a predictable and equitable global response to pandemics that will enable low- and middle-income countries to provide vaccines and medicines to vulnerable groups. Future responses to pandemics will rely on the timely sharing of biological materials and on the equitable sharing of benefits.

## 5. Bolstering international support for strengthening health systems

22. Global health efforts over the past 10 to 15 years have underscored another lesson for foreign policymakers: without robust national health systems, national and international actions against health threats suffer. The goal of strengthening health systems is complicated by many problems, including foreign aid levels and the migration of health workers from low-income countries. Foreign policymakers can advocate for increased financial support and better coordination between health and development ministries and create policy coherence among competing national interests.

23. The health workforce crisis merits particular mention. The lack of health workers within countries and regions, particularly sub-Saharan Africa, and the shortage and imbalanced distribution of health workers throughout the world undermines the operation and sustainability of health systems. Managing the national and international migration of health workers, attracting and motivating them to remain in their workplaces, and encouraging them to work effectively and productively involves numerous challenges. International migration of health workers has increased worldwide over the past few decades, especially from lower-income countries whose health systems are already very fragile. To address this situation, the World Health Assembly called for the development of a code of practice on the international recruitment of health personnel,[4] which led to a multi-stakeholder process to articulate the content of the code and define a set of actions.

[4] World Health Assembly resolution WHA57.19.

24. Health systems provide the foundation for the dramatic scale-up of interventions that is needed to meet the health-related Millennium Development Goals and to respond to emerging health threats subject to the International Health Regulations (2005). The renewal of primary health care[5] seeks to advance the goal of universal coverage, in part through efforts to ensure well-managed, adequately staffed and well-equipped health systems that can deliver prevention and care interventions, with the participation of the community. The development of disease-specific programmes is equally essential.

25. Ensuring effective, well-functioning health systems is central to improving maternal and child health, an area that remains constrained by some of the largest health inequities in the world and by the slow progress in achieving Millennium Development Goals 4 and 5. Effective maternal health programmes cannot be developed unless health systems are strengthened. In this regard, the foreign policy community must strive to increase political will, commitment and engagement and international cooperation and assistance, so that the accessibility, availability, acceptability and affordability of health-care services, skilled health workers, facilities, infrastructure and nutritional support for all women and children, in sub-Saharan Africa in particular, are ensured.

26. Without urgent improvements and long-term commitments to make health systems functioning, accessible and affordable, the health Millennium Development Goals will be difficult to achieve. The Secretary-General has identified the need to strengthen health systems as a critical area that needs concerted action across and beyond the United Nations system, and has made this a priority for his tenure. He has engaged, in particular, in the efforts to address the human resource crisis and in social health protection, which is essential to protect the poor from catastrophic out-of-pocket health expenditures. Given the national context for health systems and the existence of several global initiatives financially supporting health, foreign policy community engagement to advocate and support the strengthening of health systems is key to securing future sustainable action and support.

## 6. Addressing the challenges facing global health governance

27. In the past 10 to 15 years, the number of global health actors, strategies, initiatives, diplomatic forums and funding mechanisms has multiplied. At the same time, globalization has led to an increase in health risks, as well as opportunities to address them. There is growing recognition of the need to strengthen health and non-health forums to address heightened public health risks and of the need to take advantage of new opportunities to protect health and better ensure the achievement of the Millennium Development Goals. In this regard, WHO, whose role in providing governance and setting norms within the United Nations system has become particularly important, can provide the necessary expertise. Improving global health governance can benefit from the increased engagement of the foreign policy community, including enhanced national health and foreign policy ministry linkages and coordination, given the diverse sectors affected by global health.

28. The Secretary-General has explicitly stressed the need for Member States and the United Nations to involve and work with civil society, the private sector, foundations and academia. To that end, he has brought together leaders of United

[5] World Health Assembly resolution WHA62.12.

Nations entities, representatives from key civil society organizations, chief executive officers of private sector institutions, heads of major foundations and representatives from the academic world who are active in global health issues, to join forces for priority global health issues. In setting the tone for the foreign policy community, he has underlined the need for common advocacy and communications efforts and has raised political attention to key health issues, such as maternal health, neglected tropical diseases, non-communicable diseases and the need to strengthen health systems. His work in this area has also benefited from joint cooperation with the actors concerned.

### 7. Integrating health into all policies and addressing non-communicable diseases

29. A report by the Commission on Social Determinants of Health[6] calls for international action to improve living conditions, tackle the inequitable distribution of resources and measures, understand and assess their impact through strengthened public policies. It has become clear that policies and actions outside the health sector have an enormous effect on health, be it detrimental (air pollution, water pollution or environmental contamination) or positive (education, gender equality, healthy environmental policies). However, health ministries in many countries have had difficulty coordinating with other sectors and influencing policies beyond the health system for which they are responsible. Decision makers should approach their policies by considering the effects on health from these other intersectoral perspectives, known as "health in all policies". The foreign policy community, in particular, can make greater efforts to support the intersection among these policy arenas. When such intersectoral collaboration has been successful, the health benefits have been considerable. Similarly, decision makers should act consistently, across different sectors, to ensure adherence to their health-related human rights obligations.

30. For many countries around the world, it will be impossible to improve global health without addressing the growing burden of health problems associated with non-communicable diseases. Chronic diseases such as heart disease, stroke, cancer, chronic respiratory diseases and diabetes are by far the leading cause of mortality in the world, representing 60 per cent of all deaths, with 80 per cent occurring in low- and middle-income countries. These diseases are preventable, but require concerted action by all. For example, concerted action among States and stakeholders led to the adoption of the Framework Convention on Tobacco Control and other less formal codes that have contributed significantly to the control of certain chronic diseases.

## B. Foreign policy issues affecting global health

31. The second category of priority issues involves those that generate potential opportunities to support or harm national and global health. Although some of these issues originate outside the health sector, they can have adverse consequences for health and must be addressed by health ministries and international health organizations. The primary objective of increasing the foreign policy community's

[6] See Commission on Social Determinants for Health, *Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health: Final Report of the Commission on Social Determinants of Health*, WHO, 2008.

sensitization to health is to improve coherence between foreign and health policies, through heightened awareness of the health implications of policies adopted in non-health sectors.

### 1. Security, arms control, armed conflict and post-conflict challenges

32. Traditionally, foreign policy aims to ensure States' national security, and many security problems create dangers for national and global health. These dangers include the proliferation of weapons of mass destruction, the deployment of weapons that cause indiscriminate death and injury, the inhumane conduct of armed conflict and the emergence of health crises in post-conflict contexts. Given the limited ability of the health sector to shape policy in these areas, foreign policymakers can contribute more effectively to health outcomes by using, among other policy tools, a "health lens" to make, monitor and measure progress on national and international security strategies.

33. Evidence has shown that the countries farthest from reaching the Millennium Development Goals are in, or are emerging from, conflict. The lack of progress in health in these countries is undermining global progress on the health and non-health Goals. Political violence and conflict generate health risks in the short run. However, it is in the longer term that the impact of the conflict on health is most devastating, especially with respect to mental health. Serious interruptions and even collapse of the health-care systems also prevent access to basic health care, despite the increased needs related to the crisis. Attempts to accelerate past achievements in the health-related Millennium Development Goals may be hampered by the loss of capacity and, in some cases, near collapse of public health systems. Conflicts also lead to high population mobility, which can cause further spread of disease.

34. Frequently, conflict has a negative impact on development work in other areas linked to health and health-care delivery. For example, it is not uncommon for relief and reconstruction efforts to be hampered by a multitude of problems, ranging from communications and logistics to governance at the national and local levels. Ensuring unimpeded access to health assistance is also a goal to be achieved. The transition from relief to development poses unique challenges for the health sector and requires the adoption of measures directed at re-establishing the regular course of economic and social life. Extra efforts to strengthen institutional capacity to pursue longer-term health development goals and discharge essential public health functions must be part of the broader recovery strategy.

### 2. Global economic and financial crisis

35. As WHO and the World Bank predicted, the global economic and financial crisis is having deleterious consequences for health, especially among vulnerable populations and low-income countries. Health experts can identify and measure these consequences but, without the leadership of foreign ministries and diplomats, their input can end up being marginalized in the politics and diplomacy surrounding the mitigation of the crisis. Leadership from foreign policymakers in advocating for the health aspects of the crisis is therefore essential.

36. The scale and reach of the current financial crisis has left the world economy facing a rapidly deteriorating outlook: the crisis has led to a credit crunch and lowered asset values, constraining household spending and curtailing production

and trade. Global output and trade plummeted in the final months of 2008. The world economy is forecast to contract by about 2.0 per cent in 2009,[7] with more pessimistic scenarios possible, and growth in emerging and developing economies slowing.[8]

37. Under these conditions, achieving the Millennium Development Goal of halving extreme poverty and hunger in the world by 2015 will be difficult. The crisis will affect all countries, with a serious and disproportionate impact on the poorest and those most isolated. Livelihoods of rural and urban poor families are already deteriorating rapidly. Government expenditures and social protection systems will be negatively affected. Jobs are being lost in most parts of the world at a quick pace, with women being disproportionally affected in the developing world, where almost two thirds work in vulnerable jobs and as unpaid family workers. Women are also disproportionately represented in part-time, seasonal and short-term informal jobs and therefore are deprived of job security and benefits. The cumulative impact of these factors has a very negative effect on people's health.

38. In this time of crisis, all Governments and political leaders must maintain their efforts to strengthen and improve the performance of their health systems, protect the health of the people of the world, and in particular of those who are most fragile. It is therefore imperative to counter this period of economic downturn by increasing investment in health and the social sectors and building on our past successes. Actions include the need to *protect the poor*, particularly in the light of the global economic crisis, food insecurity and climate change; *promote economic recovery* through investment in social sectors and in human capital; healthy human capital is the foundation of economic productivity and can accelerate recovery towards economic stability; *promote social stability* through equitable distribution of health care, thereby contributing to social cohesion and protecting against national and international social unrest and; *encourage efficiency* through social protection, using prepayment with pooling of resources to finance health expenditure.

### 3. Natural disasters and emergency responses

39. Natural disasters place enormous stress on societies and Governments and usually have adverse health consequences for the victimized populations. Inequities in health increase during times of crises, requiring special efforts to meet the needs of the poorest and most vulnerable. In addressing such humanitarian crises, foreign policymakers must ensure that Governments are able to adequately prepare for and respond to natural disasters. Embedding health considerations into policy strategies and legal frameworks on preparing for and responding to natural disasters is critical, and lessons learned in this area can be helpful in the formulation of foreign policy responses to other health-adverse crises, including energy, food and economic crises.

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[7] United Nations, Department of Economic and Social Affairs, *World Economic Situation and Prospects: update as of mid-2009* (forthcoming), updating United Nations publication, Sales No. E.09.II.C.2.

[8] World Bank, "Crisis hitting poor hard in developing world", Press Release No. 2009/220/EXC, Washington, D.C., 12 February 2009.

### 4. Climate change

40. Governments are currently engaging in climate change politics and diplomacy in the context of the upcoming Climate Change Conference in Copenhagen in December 2009. The population-centric epidemiological approach used in public health could inform the adaptation of policies and strategies for mitigating the effects of climate change and the adaptation of social systems to the ecological changes that global warming may cause. Concerning integrating health into climate change negotiations, lessons on how health concerns are reflected in negotiations on non-health issues, such as the international humanitarian law governing armed conflict, and in the principles of international disaster relief, could be of benefit to foreign policymakers.

41. Climate change modifies the physical and socio-economic conditions within which life occurs, thus influencing human health. It affects fresh water supply, agricultural productivity, frequency and distribution of disastrous weather events, as well as characteristics and occurrence of vector-borne diseases. These in turn directly and indirectly affect socio-economic conditions. Shortages of potable water caused by increased flooding, higher rates of water-borne diseases and acute diarrhoea will further exacerbate social tensions and reduce social stability. In the long run, the greatest health impacts may not be from acute shocks such as natural disasters or epidemics, but from the accumulated effects of a changing climate on those systems that sustain health, and which are already under stress in much of the developing world.

### 5. Food insecurity

42. The global food crisis in 2008 created problems for global health (malnutrition) because of the lack of access to affordable and safe food. Although the crisis passed as global food prices declined in the latter half of 2008, it revealed how vulnerable many societies are to price and supply volatility in the food sector. The underlying causes of such volatility have not disappeared, and the world remains vulnerable to more food price or supply shocks. For this reason, foreign policy action on the problem of food insecurity is a priority global health need. The High-level Task Force on the Global Food Security Crisis, established by the Secretary-General in April 2008 and composed of the heads of the United Nations specialized agencies, funds and programmes, Bretton Woods institutions and relevant parts of the United Nations Secretariat, promotes a unified response to the challenge of achieving global food security and is an example of broader, multisectoral action, including foreign policy. The Comprehensive Framework for Action outlines a twin-track approach — investing in food assistance and social safety nets for those most in need, and at the same time scaling up in investment in agriculture in developing countries, increasing opportunities for people and enabling them to feed themselves, ensure adequate nutrition and sustain an increase in income. Continued priority to the food and nutrition security of vulnerable groups is necessary to achieve Millennium Development Goal 1, as well as all health-related Goals and the Goals as a whole.

### 6. Promotion of health as a human right

43. The WHO Constitution, numerous international and regional treaties, and national constitutions enshrine the enjoyment of the highest attainable standard of

health as a fundamental human right. This right encompasses not only accessible, affordable, culturally acceptable and high-quality health care but also underlying determinants of health, such as access to safe and potable water, adequate sanitation and health-related education and information. It obligates Governments to take steps individually and through international assistance and cooperation, especially economic and technical, to the maximum of available resources, with a view to progressively achieving its full realization. Upholding health as a human right helps keep health higher on the political agenda and means that health is the responsibility of the Government as a whole. There are United Nations human rights treaty bodies that review the deliberate, concrete and targeted steps being taken by States to meet their health-related human rights obligations. There is also a Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, who reports to the Human Rights Council and the General Assembly. Increased attention by the foreign policy community to health as a human right is required to further strengthen this right and empower people to demand that it be respected, protected and fulfilled in all Member States.

### 7. Migration

44. Movements of populations within and across borders is far more significant today than in the past, and, while these domestic and transnational movements contribute positively to development, they also contribute to the spread of disease, deterioration in social determinants of health (increased poverty along with intensified urbanization) and pressure on weak, vulnerable health systems. There are many overlapping categories of migrating populations. Conditions surrounding the migration process can increase vulnerability to ill health, including marginalization, stigma, violence and exploitation, for certain populations.[9] Addressing migration itself is beyond the remit of the health sector; it requires that foreign ministries understand the need to cooperate with other countries and international organizations to deal with the root causes and consequences of migration. The World Health Assembly resolution on the Health of Migrants,[10] calls on Member States to promote bilateral and multilateral cooperation on migrants' health among countries involved in the whole migratory process. This provision is particularly relevant in the context of the foreign policy and global agenda and is vital to achieve the necessary intercountry consensus, shared values, harmonized health protocols and multisectoral dialogue to promote better health for migrant populations.

## III. Public health and foreign policy in action: initiatives and activities on strengthening the link between global health and foreign policy

45. In its resolution 63/33, the General Assembly requested the Secretary-General to submit a comprehensive report on activities and initiatives related to foreign policy and global health (para. 5). The present chapter describes activities and initiatives in different contexts, in order to provide a picture of public health and foreign policy in action. This overview does not mention every activity or initiative

[9] World Health Assembly report A61/12.

[10] World Health Assembly resolution WHA61.17.

but rather presents a representative spectrum of such efforts within countries, in different international forums and among non-governmental actors.

## A. Initiatives and activities at the national level: integrating global health in foreign policy aims and processes

46. A number of Governments have realized that, because their foreign ministries are obliged to address global health problems more and more frequently, it would be beneficial to develop specific national strategies to create more effective foreign policy action on global health. To date, the two leading examples are Switzerland, which developed a strategy called *Swiss Health Foreign Policy* in 2006, and the United Kingdom of Great Britain and Northern Ireland, which issued a Government-wide *Health is Global: A UK Government Strategy 2008-13* in 2008. These efforts have increased interest in other countries on potentially moving towards formal, coordinated foreign policy strategies and global health. Other countries such as Brazil, France and Thailand have increased national policy coordination and coherence on foreign policy and global health, without producing formal strategy documents.

## B. The Foreign Policy and Global Health Initiative

47. In September 2006, the Ministers for Foreign Affairs of Brazil, France, Indonesia, Norway, Senegal, South Africa and Thailand launched the Foreign Policy and Global Health Initiative because they wanted to "build the case for why global health should hold a strategic place on the international agenda". In their Oslo Ministerial Declaration,[11] they outlined an agenda for action based on building capacities for global health security, facing threats to global health security and making globalization work for all. The Initiative has become one of the most prominent efforts in strengthening the foreign policy importance of global health, and the membership may grow beyond its founding members. The seven countries that launched the Foreign Policy and Global Health Initiative were instrumental in proposing resolution 63/33 and shepherding it through the General Assembly.

## C. Initiatives and activities within international and regional organizations

48. Many international and regional organizations are paying increased attention to foreign policy action on global health. As the United Nations specialized agency for global health, WHO is a hub for foreign policy action; it has increasingly engaged in initiatives and activities that heighten the foreign policy-global health linkage, including the adoption of the International Health Regulations (2005) and the Framework Convention on Tobacco Control. WHO has also taken steps to deepen understanding of the foreign policy-global health relationship by commissioning research, sponsoring symposiums, creating a unit on the topic and supporting the development, with the support of the Rockefeller Foundation and the

[11] Oslo Ministerial Declaration — global health: a pressing foreign policy issue of our time", *The Lancet*, vol. 369, No. 9570, pp. 1373-1378.

Foreign Policy and Global Health Initiative, of an informal global network on foreign policy and health, including global health diplomacy.

49. The United Nations has also witnessed many activities highlighting the importance of global health in foreign policy. These include the Security Council's interest in HIV/AIDS, the General Assembly special sessions on HIV/AIDS, the Organization's support for the Millennium Development Goals, the World Bank's efforts to highlight health as a key component of economic development and the appointment of the United Nations System Influenza Coordinator. In addition, the Secretary-General has identified the challenge of making people's lives healthier as a touchstone of the effectiveness of United Nations reform.

50. A new set of international initiatives to mobilize interest in and support for health has engaged the foreign policy community to a much greater extent than in the past. These include the High-level Task Force on Innovative International Financing for Health Systems, the Leading Group on Innovative Financing for Development, the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria, the International Drug Purchase Facility (UNITAID), the Millennium Foundation, the International Health Partnership, the Global Campaign for the Health MDGs and several similar efforts. Conversely, efforts to negotiate ways of enhancing aid effectiveness increasingly involve foreign policy interest and engagement, including the work of the Organization for Economic Cooperation and Development and the adoption of agreements such as the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action.

51. In the past 10 to 15 years, health issues have appeared more frequently on the agendas of regional organizations all over the world. For example, regional organizations, such as the Association of South-east Asian Nations, the Asia-Pacific Economic Cooperation forum, the European Union, the African Union, the Common Market of the Southern Cone, the Union of South American Nations and the Shanghai Cooperation Organization have taken steps to improve regional cooperation on health, including by holding meetings of health ministers, issuing declarations on specific health challenges, negotiating common strategies on health threats, cooperating on pandemic influenza preparedness, supporting access to universal health systems, addressing the social determinants of health, increasing access to medicines, enhancing human resources for health and creating new surveillance, response, pharmaceutical and e-health capabilities.

## D. Other intergovernmental processes, including bilateral relations

52. Other intergovernmental processes have also engaged in more health-related foreign policy initiatives. For example, the Group of Eight has become one of the more important actors in global health because it has made many commitments in this area, including supporting the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria, increasing access to HIV/AIDS treatment, supporting polio eradication and strengthening health systems in low-income countries. High- and middle-income countries have also cooperated on establishing new financing mechanisms for global health. These mechanisms include the International Finance Facility for Immunization, UNITAID, the Advance Market Commitment for pneumococcal disease and the Millennium Foundation.

53. With respect to intergovernmental processes based on religious affiliation, the Organization of the Islamic Conference (OIC) has made health issues more prominent, with OIC health ministers adopting their first two resolutions in 2007 and 2009. These resolutions addressed issues as diverse as the combating of malaria, polio eradication, emerging biosecurity issues, tobacco control, health equity, and emergency preparedness and response. OIC has also agreed to work with the United States of America on the global eradication of polio. Another intergovernmental process, the Community of Portuguese-Speaking Countries, has also incorporated health initiatives in its endeavours, including work on the development of health workforces, health promotion, surveillance, and health information and communication.

54. Regarding bilateral relations, many countries have undertaken activities on health as part of their foreign policies. Some of the best-known bilateral initiatives have been introduced by the United States, with the President's Emergency Plan for AIDS Relief being the largest bilateral health programme ever launched. Bilateral health activities also figure in the development assistance provided by donor countries, which often direct aid into disease-specific or health-related projects in recipient low-income nations. Other bilateral initiatives include the export of health personnel and the use of hospital ships to deliver health care to low-income countries, as forms of health diplomacy.

## E. Non-governmental and academic initiatives and activities

55. The rise of global health as a foreign policy issue has captured growing interest among non-governmental entities such as philanthropic foundations, advocacy non-governmental organizations (NGOs), think tanks and academic institutions. For example, WHO is developing a global network on global health diplomacy, with the support of the Rockefeller Foundation, which draws on NGOs, think tanks and academic institutions that teach global health and foreign policy and global health diplomacy.

56. Non-governmental actors are conducting research, policy analysis and advocacy; providing educational opportunities; and designing training programmes. At present, such non-governmental efforts are most common in high-income countries, particularly among academic institutions in Canada, Sweden, Switzerland, the United Kingdom and the United States, although they are increasing in other countries as well. The emergence of the Foreign Policy and Global Health Initiative reflects increased attention among institutions in its member countries, as well as in countries such as China, India and the Russian Federation.

57. Funding for foreign policy and health-related research and capacity-building has been provided by non-governmental and governmental sources such as the Bill and Melinda Gates Foundation, the Rockefeller Foundation, Switzerland, the European Union, and institutions in the United States and the United Kingdom.

# IV. Conclusions and recommendations

## A. Conclusions

58. The level of foreign policy involvement and interest in global health has grown dramatically, making the relationship between global health and foreign policy an increasingly important issue for the United Nations, WHO, many intergovernmental organizations and processes and national Governments. This change reinforces the importance of concerted and sustained international cooperation through global health initiatives, health-sensitive multisectoral policies and advocacy for improved individual, national and global health outcomes.

59. Foreign policymakers and global health experts have expressed the need for a common framework that emphasizes the importance of addressing global health challenges, in order to provide human, national and international security; achieve national, regional and global economic well-being; foster economic and social development in low-income countries; and promote human dignity through the protection of human rights and the delivery of humanitarian assistance.

60. Global health issues and initiatives appear with increasing frequency in all foreign policy contexts, including bilateral relations, regional organizations, other intergovernmental processes and multilateral institutions.

61. Foreign policy has a clear role to play in catalysing and supporting responses to key urgent health-related challenges as well as non-health problems that adversely affect national and global health.

62. Increased dialogue on foreign policy and health, joint analyses of problems and cooperation, at the international, regional and national levels, among key concerned institutions, organizations, ministries and other interested stakeholders can improve policy coherence across sectors and international organizations and lead to better outcomes for global health and foreign policy.

63. A better understanding of the nature, extent, intensity and effectiveness of foreign policy action on global health is needed, particularly as foreign policy activities on global health increase in bilateral, regional and multilateral contexts. This goal requires more systematic cataloguing and analyses of foreign policy activities, including documenting the political processes through which foreign policymakers take up and act upon global health issues and assess the impacts of global health on foreign policy.

64. Similarly, in order to secure greater foreign policy community engagement and support, it is necessary to identify priorities issues for the health sector/foreign policy dialogue and mutual action. In particular, it would be beneficial to determine ways in which national foreign policy ministries and mechanisms could be used to advance health, including securing necessary funding. Health ministries and health personnel could also benefit from a better understanding of foreign policy dynamics.

65. Formal, cross-Government strategies and coordination processes are a promising way to improve foreign policy acumen, capabilities and performance in the area of global health.

66. Leadership and initiative on strengthening the relationship between global health and foreign policy from geographically representative groups such as the

Foreign Policy and Global Health Initiative, regional organizations and multilateral institutions, such as the United Nations and WHO, are important in advancing global health as a strategic foreign policy interest.

## B. Recommendations

67. Member States may wish to consider the following recommendations bearing in mind the respective roles and responsibilities of national ministries and intergovernmental organizations, including the United Nations and WHO:

(a) **Identify priority global health issues that require foreign policy action and determine how national, regional and global health efforts can contribute to achieving foreign policy goals.** Conduct inventories of country and multilateral institution foreign policy activities on global health, including their internal governmental and inter-agency processes, in order to generate a comprehensive picture of how global health and foreign policy are linked;

(b) **Strengthen the political and institutional foundations for foreign policy action on global health** by emphasizing that global health is an integral component of achieving security, prosperity, equity and dignity, at the national level and across the international community, and as such, is a strategic interest of foreign, health and global policies. In so doing:

(i) Develop strategies to guide foreign policymakers, health experts and inter-agency coordination mechanisms in pursuing global health as a strategic foreign policy interest;

(ii) Make health protection a goal of policies for responding to large-scale crises such as food shortages, global economic crises, climate change and post-conflict reconstruction and development, in the same way that health considerations are embedded in policy and legal frameworks for responding to natural disasters and the conduct of armed conflict;

(iii) Work with other countries and partners to prevent or minimize emerging or re-emerging threats to global health including, where appropriate, the negotiation of new strategies for effective collective action;

(c) **Increase the quantity and quality of health information available to decision makers, as well as the number of joint analyses of foreign policy interactions with global health and global health diplomacy.** In so doing:

(i) Systematically collect, analyse and disseminate best practices on integrating and pursuing global health as a strategic foreign policy interest and increase the health sector's appreciation of health and diplomacy. Ensuring coordinated, synthesized and available health information is essential to support health and foreign policy dialogue and action;

(ii) Engage in more rigorous and transparent monitoring and assessment of foreign policy initiatives and activities on global health;

(d) **Heighten the involvement of, and policy coherence among, diplomatic forums in improving foreign policy efforts on global health** by working within existing health and non-health diplomatic forums to promote policy coherence, mitigate risks and take advantage of opportunities in global health. This

may include engaging with foreign policy and diplomatic processes that have not, to date, focused much attention on global health, such as the Peacebuilding Commission;

(e) **Increase the capacity and training of diplomats and health officials in global health diplomacy and develop training standards and open-source information, education and training resources for this purpose.** The particular needs of low-income countries should be taken into account. WHO should work with partners to encourage the development of globally accessible, open-source curriculum, education and training materials and programmes designed to improve the knowledge and skills of foreign policymakers and global health experts in global health and health diplomacy. Where appropriate, standards and curricula should be developed for training foreign policy and health personnel in global health diplomacy, particularly in national and regional schools and foreign affairs institutes.

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**Programme budget for the biennium 2008-2009**

**Proposed programme budget for the biennium 2010-2011**

**Financing of the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994**

**Financing of the International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991**

**Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations**

# Liabilities and proposed funding for after-service health insurance benefits

## Report of the Secretary-General

*Summary*

In his reports on liabilities and proposed funding for after-service health insurance benefits (A/60/450 and Corr.1 and A/61/730), the Secretary-General recommended approval to: (a) change eligibility provisions for after-service health insurance benefits for newly recruited staff; (b) begin recognizing the liability of the United Nations for benefits; and (c) begin funding the liabilities related to the benefits.

The General Assembly, in section III of its resolution 60/255, recognized the accrued end-of-service liabilities reported by the Secretary-General and requested that the necessary steps be taken to disclose those liabilities in the United Nations

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financial statements. In its resolution 61/264, the Assembly approved the establishment of an independent segregated special account to record accrued after-service health insurance liabilities and account for related transactions and also approved the recommended changes to after-service health insurance provisions for new staff members recruited on or after 1 July 2007.

In the same resolution, the General Assembly also requested the Secretary-General to submit a report to it at its sixty-third session that would, inter-alia: (a) reflect updated and validated after-service health insurance accrued liabilities; (b) provide additional information on alternative long-term financing strategies; (c) report on measures aimed at reducing the Organization's costs related to health-care plans; (d) provide comprehensive information and analyses based, inter alia, on the results of the actuarial valuation of the after-service health insurance programme as at 31 December 2007, providing differentiated funding options based on funding source; and (e) provide investment strategies with respect to an after-service health insurance reserve fund.

In view of the comprehensive nature of those requests and the complexity of the underlying elements, the requested report was delayed until the sixty-fourth session in order that the Secretariat might review the various components of the liability for after-service health insurance and to evaluate strategies for alternative funding and cost containment. The present report provides the additional information requested in General Assembly resolution 61/264. The Assembly is requested to approve the recommendation to begin funding the United Nations liability for after-service health insurance benefits. Actions requested to be taken by the General Assembly are included in section XI.

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# I. Overview

1. The after-service health insurance programme provides a continuation of health insurance coverage throughout retirement to staff who meet defined eligibility criteria. The associated costs, as shared between staff and the Organization, have increased considerably since the inception of the programme in 1967, owing to increases in the population of retirees covered and because of the increased cost of medical services worldwide. As a result, after deducting $722.7 million to be contributed by retirees, the United Nations share of accrued after-service health insurance liabilities, as valued by professional actuaries using the methodology prescribed by the International Public Sector Accounting Standards, now stands at $2,430.9 million from all funding sources as at 31 December 2007, compared with $2,072.8 million as at 31 December 2005. Related pay-as-you-go costs for current retirees for the biennium 2010-2011 amounting to $130.4 million are included in the proposed programme budget, with $105.2 million (after recosting) of that amount proposed under the special expenses section of the proposed programme budget and an additional $25.2 million to be provided from extrabudgetary funding sources. By comparison, the amounts appropriated for the biennium 2008-2009 from all funding sources is $102.2 million ($89.3 million under the programme budget and $12.9 million under peacekeeping operations).

2. In consideration of the importance of after-service health insurance for retiring staff members, many of whom cannot benefit from the national social security schemes of Member States owing to their service with the United Nations, and in recognition of the anticipated continued rise in biennial costs and associated accrued unfunded liabilities, the Secretary-General has, in two previous reports on liabilities and proposed funding for after-service health insurance benefits (A/60/450 and Corr.1 and A/61/730), made recommendations for the onset of systematic funding of the accrued liabilities. While the current pay-as-you-go financing arrangement provides the resources needed to fund the current cost of benefits utilized by retirees, this approach is not sustainable in the long term, as more and more staff retire with such benefits and worldwide medical costs continue to increase at rates higher than general inflation. The anticipated accelerated growth in after-service health insurance expenditure flows in upcoming bienniums has been noted by the Board of Auditors, which, in its report on the United Nations for the biennium 2006-2007 (A/63/5 (Vol. I), chap. II), emphasized the need for the Organization to adopt a funding strategy for its after-service health insurance benefits. The Secretary-General agrees that the systematic funding of those benefits is the prudent course of action to ensure the financial viability of the programme and therefore set out in the present report updated and additional funding recommendations for consideration by the General Assembly.

3. Having considered the two prior reports of the Secretary-General, the General Assembly recognized the end-of-service accrued liabilities reported by the Secretary-General and approved the establishment of an independent segregated special account to record those accrued liabilities and account for related transactions. As a result, new financial statements reflecting the transactions were included in the audited financial statements of the United Nations. A new statement X, included in the financial statements of the United Nations for the biennium ended 31 December 2007 (A/63/5 (Vol. I) chap. V), reflected $2,041.3 million in accrued after-service health insurance liabilities ($1,821.3 million attributable to the regular

budget and $219.9 million related to extrabudgetary funds), and a new statement XXIII of the financial statements related to peacekeeping operations for the 12-month period ended 30 June 2008 (A/63/5 (Vol. II), chap. V) reflected $409.9 million (rolled forward from $389.6 million as at 31 December 2007) in accrued after-service health insurance liabilities attributable to peacekeeping operations. Those accrued liabilities were validated by the Board of Auditors as a part of its audits of the related financial statements. As the valuation of accrued liabilities is very sensitive to the actuarial assumptions and discount rate used to calculate the present value of future benefits, the Board of Auditors took particular note of the 5.5 per cent discount rate used for both the 2005 and 2007 valuations and commented that this choice of interest rates was in line with the principle of prudence specified in note 2 (a) (ii) to the financial statements and also enabled the liability to be more easily compared over time (see A/63/5 (Vol. I), chap. II, para. 120). In consideration of the current volatility in financial markets and the potential impact the selection of a discount rate can have on the valuation and comparability of the after-service health insurance liability, arrangements are being made to determine whether the Committee of Actuaries of the United Nations Joint Staff Pension Fund (UNJSPF) can, in consultation with the UNJSPF Investment Management Service, validate the actuarial calculations and assumptions used to determine the future after-service health insurance liability.

4. As a part of resolution 61/264, the General Assembly also approved recommendations made to change after-service health insurance eligibility provisions for new staff members recruited on or after 1 July 2007. The approved changes will contain the growth in the liability as a result of the implementation of the related more stringent enrolment and other eligibility requirements for those staff. Cost containment while maintaining comprehensive and comparable health insurance coverage for staff and retirees is the overarching goal of the United Nations in the ongoing provision and management of health insurance benefits. Initiatives that reduce or contain health insurance costs have an impact on current costs and also serve to reduce and contain annual pay-as-you-go costs and long-term liabilities associated with after-service health insurance. In accordance with resolution 61/264, the present report summarizes a number of measures taken by the United Nations that are aimed at reducing the overall cost of health insurance benefits and after-service health insurance costs.

5. Significant cost savings are derived from the self-insured structure and third-party administrator arrangements in place for the United States-based plans in particular, with related annual savings estimated at over $75 million per year. Aside from the financial benefits associated with this structure, additional cost savings and administrative efficiencies are projected from cost containment and other initiatives implemented since 2007. As detailed in section IV of the present report, these initiatives included, inter alia, changes in insurance platform, the appointment of a third-party administrator for the medical insurance plan for locally recruited staff at designated duty stations away from Headquarters, revisions to benefit provisions related to cost-sharing and the incorporation of disease-management and wellness programmes into the United States-based plans. The combined additional cost savings related to these initiatives, when added to the change in after-service health insurance eligibility provisions approved by the General Assembly in 2007, are estimated at between $6 million and $10 million per year, with containment in the

growth in after-service health insurance liabilities based on current staffing patterns projected to be over $100 million by 2012.

6. Cost-containment initiatives have been and will continue to be a central component of the Organization's review and management of its health-insurance programmes. While those initiatives will reduce and contain costs to a degree, the increase in after-service health insurance pay-as-you-go costs and accrued liabilities is projected to continue to spiral upward, fuelled by increased enrolments, demographics, increases in the rate of medical utilization and increases in the cost of medical treatment. As has been the case for other sponsors of after-service health insurance programmes, the United Nations has been covering medical claims as they are submitted by retirees on a pay-as-you-go basis since the inception of the programme. This financing strategy was sustainable while the cost of health care for retirees was a relatively small portion of annual expenditures; however, it has led to the recording of unfunded liabilities in excess of $2.4 billion on the Organization's financial statements and will result in significantly increased budgetary requirements in future years. As the number of after-service health insurance participants and the cost of medical services continue to escalate, concomitant increases in pay-as-you-go costs will place ever-increasing demands on biennial budgets. Projections indicate that the 2008-2009 biennial budget of $102.1 million for after-service health insurance pay-as-you-go costs for all funding sources will increase to over $600 million by the 2036-2037 biennium, with the current $2.4 billion unfunded accrued liability increasing to over $11.0 billion by 31 December 2037.

7. The pay-as-you-go approach to financing after-service health insurance costs provides for the resources required to fund the United Nations share of health insurance premiums for retirees during the year that such coverage is provided without setting aside funds to address accumulated or future costs, thereby not building up a reserve. Given the request made by the General Assembly in resolution 61/264 to include in the current report a funding alternative by which sufficient funds would be provided to cover current costs without the build-up of a reserve, the present report provides an alternative methodology to resource pay-as-you-go costs. In lieu of providing for these costs under the special expense section of the regular budget and under the support accounts for extrabudgetary funds and peacekeeping operations, a charge of 5.6 per cent, 1.2 per cent and 1.5 per cent, respectively, could be applied against net salaries of these funding sources to generate sufficient funds for pay-as-you-go requirements. While pay-as-you-go financing is presented as an alternative funding mechanism, its disadvantages, which include the misalignment of costs and programme activities, the ever-increasing strain on biennial budgets and the growth in the level of unfunded accrued liabilities on the Organization's financial statements, are not mitigated by such a change in approach. Pay-as-you-go financing is less costly in the short term; however, funding of the liabilities is more economical in the longer term, as investment earnings serve to reduce budgetary requirements. The Secretary-General therefore recommends the adoption of a funding policy for after-service health insurance benefits, with the ultimate goal of achieving full funding of those benefits.

8. The challenges associated with funding the large amount of liabilities that have accrued while also funding current service-related accruals are considerable but will become exponentially greater if ignored. The Secretary-General has therefore presented alternative funding strategies in the present report which, as requested by

the General Assembly in resolution 61/264, include partial-funding alternatives, with funding goals differentiated by funding source, taking into account the demographic differences and different career patterns of staff who work for different funding sources. The funding option recommended by the Secretary-General takes into consideration the availability of existing resources and the overall resource constraints of the United Nations.

**Funding under alternative 1**

9. The first funding alternative presented in the report sets funding goals of 75 per cent for the regular budget, 60 per cent for extrabudgetary funds and 65 per cent for peacekeeping funds, to arrive at overall funding of about 70 per cent of accrued after-service health insurance liabilities after 30 years. While the ultimate goal of the Secretary-General is to arrive at full funding of the liabilities, this approach sets the initial funding targets below 100 per cent, in consideration of current market volatility and its potential impact on future discount rates, liability valuations and investment returns and in recognition of differences in the election for coverage under after-service health insurance by staff who retire under different funding sources.

10. In order to arrive at the funding targets while also providing adequate resources for the pay-as-you-go costs of current retirees, this alternative proposes the application of charges against salary costs at the rate of 16.0 per cent, 6.0 per cent, and 5.5 per cent, respectively, against the regular budget, extrabudgetary funds and peacekeeping operations, with these costs charged against common staff costs of these funds. The application of these rates to estimated net salary costs for the 2010-2011 biennium results in estimated amounts of $299.8 million for the regular budget, $41.7 million for extrabudgetary funds and $61.2 million for peacekeeping operations. In the short term, these resource requirements are more than triple the pay-as-you-go level. It is projected, however, that the funding required under this approach will, after about seven bienniums, drop below the pay-as-you-go requirements from that time onward. This funding approach is complicated in its underlying structure and will require periodic actuarial review to ensure that the funding objectives by funding source are being achieved. While the benefits of the approach will be apparent after seven bienniums (i.e., after 2022-2023), it requires significant additional resources from budgets until then.

**Funding under alternative 2**

11. The second alternative is simpler in approach, as it aims to gradually attain partial levels of funding by doubling the pay-as-you-go requirements, with the result that half of each year's contributions would be utilized for the payment of current retiree health benefits and the balance to fund a portion of accrued liabilities. Under this alternative, current provisions under the special expenses section of the regular budget and the support accounts for extrabudgetary funds and peacekeeping operations would remain unchanged and an equal amount would be resourced through charges of 5.6 per cent, 1.2 per cent and 1.5 per cent, respectively, against salary costs of the regular budget, extrabudgetary funds and peacekeeping operations, with those costs chargeable against common staff costs. This alternative is presented to describe a method for achieving partial funding levels. Based on a funding goal of 25 per cent after 30 years, this option will require biennial budgets that are double the pay-as-you-go level for about five bienniums, after which the

required resources to maintain the funding goal are expected to drop below projected pay-as-you-go requirements from that time onward. Compared with the first alternative, this option is simpler and places less demand on biennial budgets in the short term. To attain higher levels of funding, however, additional years of the doubling of pay-as-you-go costs would be required, with the result that the resource requirements under this option would be higher than the projected requirements under alternative 1 after the 2022-2023 biennium.

**Recommended funding alternative**

12. The third alternative presented in the report is recommended by the Secretary-General for consideration by the General Assembly and consists of an initial one-time infusion of $425.0 million, plus systematic funding for the long term aimed at attaining progressive levels of funding. Under the proposal, the General Assembly is requested to approve the transfer of $290.0 million from unencumbered balances and miscellaneous income from the budget period 2008/09 under peacekeeping operations to specifically fund a portion of the accrued after-service health insurance liabilities related to staff who have retired and who are currently working under peacekeeping operations. Such a transfer would require approval of the suspension of financial regulation 5.3 for that purpose. The Assembly would also be requested to take note of the intention of the Secretary-General to also transfer $135.0 million from extrabudgetary funds available under the United Nations compensation reserve fund and from medical and dental insurance reserves. These transfers will immediately reduce the level of unfunded liabilities and form a core level of assets for investment purposes.

13. Aside from the one-time infusion of funds, systematic and ongoing funding is proposed that, when combined with the infusion, would be structured to attain an initial funding goal of about 70 per cent of the United Nations accrued after-service health insurance liabilities after 30 years. One element of the ongoing funding proposal includes continuation of current financing for health benefits related to current retirees under the special expenses section of the regular budget and the support accounts for extrabudgetary funds and peacekeeping operations. In addition, it is proposed that a charge of 9.6 per cent, 2.6 per cent and 1.0 per cent, respectively, be applied against the net salary costs of the regular budget, extrabudgetary funds and peacekeeping operations chargeable as common staff costs. In this connection, the General Assembly is requested to approve the continuation of biennial appropriations to cover the costs of subsidy payments in respect of current after-service health insurance participants who retired under the regular and peacekeeping budgets and the application of the above rates against net salaries under the regular budget and peacekeeping operations chargeable as common staff costs. The Assembly is also requested to take note of the intention of the Secretary-General to fund pay-as-you-go costs from the support accounts for extrabudgetary funds and to apply a charge of 2.6 per cent against net salaries of extrabudgetary funds to fund a portion of the accrued liability.

14. The Secretary-General recommends this funding strategy because the initial infusion of funds immediately reduces the unfunded liability and establishes a funding base to generate investment income. In addition, while the resource requirements are initially higher than pay-as-you-go costs, it is expected that biennial requirements will be reduced in about seven bienniums to levels below pay-as-you-go requirements from that time onward, while also resulting in a 70 per cent funding

ratio after 30 years. While structured to generate the same funding levels as alternative 1, this alternative will place fewer demands on future budgets as a result of the benefits derived from the initial infusion. The actions requested to be taken by the General Assembly in connection with this recommended alternative are included in section XI of the present report.

15. In the case of all the funding alternatives presented, periodic actuarial reviews will be required to determine to what extent funding goals are being met, or require change, and to determine whether percentage rates chargeable against salary costs are appropriate in order to attain and subsequently maintain the funding goals once achieved and to ultimately achieve full funding of after-service health insurance liabilities.

16. Active management of accumulated assets will be required to maximize funding levels and minimize the level of funding required through the contributions of the Organization. It is generally anticipated that the after-service health insurance reserve will be invested using an appropriately balanced portfolio of equities and debt instruments to prudently maximize long-term investment returns. As is the case for UNJSPF, the primary investment goal for the reserve will be to ultimately meet or exceed future benefit obligations by investing in a well-diversified asset mix. Upon the approval by the General Assembly to initiate the funding of after-service health insurance liabilities, further discussions will be held with the UNJSPF Investment Management Service to develop a detailed investment strategy tailored to meet the longer-term anticipated cash flow requirements of the segregated after-service health insurance reserve fund. It is anticipated that the Investment Management Service will formulate investment strategies for a long-term investment horizon expected to meet the overall performance objectives of a reserve for retirement health benefits.

17. Staff who retire from the International Tribunal for the Former Yugoslavia or the International Criminal Tribunal for Rwanda and who meet the eligibility requirements are also eligible for after-service health insurance benefits. Since the establishment of the Tribunals as temporary bodies, the liabilities pertaining to such benefits have been accruing, but no portion of the liability has been funded pending the establishment of a funding mechanism to be approved by the General Assembly. In light of the expected closure dates of the Tribunals, the 31 December 2007 actuarial valuations were calculated only for those active staff expected to retire with after-service health insurance benefits prior to the closing of the Tribunals and for current retirees. On that basis, the Organization's component of the accrued liabilities, valued at $13.4 million and $27.5 million, respectively, was recognized and shown on the audited financial statements of the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda as at 31 December 2007. These values were rolled forward (i.e., actuarially projected forward) to 31 December 2008, with the result that the interim financial statements for the 12-month period ended 31 December 2008 reflected after-service health insurance liabilities of $15.1 million and $29.7 million, respectively. Given the current completion target date of 31 December 2011, the Secretary-General proposes that the Assembly approve immediate appropriations for those amounts to fully fund the related accrued liabilities, with any funding shortfall considered as part of the closing costs of the Tribunals. The relevant recommendations are included in section XI of the present report.

18. The present report provides, for consideration by the General Assembly, the additional information and liability valuation update requested by the General Assembly in resolution 61/264 and requests the Assembly to approve the updated recommendations to begin funding the United Nations liability for after-service health insurance benefits. Given the size of those liabilities, full funding of the accrued liabilities for the United Nations cannot be achieved in the short to intermediate term. As noted in annexes I and II, a number of United Nations entities have initiated the funding of their after-service health insurance liabilities through a variety of systematic and ad hoc funding methods appropriate for their situations. The Secretary-General recommends adoption of a dedicated funding strategy for the United Nations that aims at progressively attaining increasing levels of funding in order to ultimately achieve full funding of accrued liabilities over the long term to ensure the financial viability of the after-service health insurance programme.

## II. Introduction

19. The after-service health insurance programme provides for staff who meet defined eligibility criteria to continue health insurance coverage during their retirement under the same health insurance schemes as active staff, with the cost of those benefits shared by the Organization and the staff. This is a very important element of social security for retiring staff members, as many cannot benefit from the national social security schemes of Member States owing to their service with the United Nations.

20. Since its inception in 1967, the programme has grown in the number of individuals covered and hence in its cost. Today, the programme provides coverage to more than 8,000 United Nations retirees (plus about 4,000 dependants) around the world, under nine health insurance plans. The total of accrued liabilities was actuarially valued at $3,153.6 million as at 31 December 2007, with $722.7 million of the amount to be covered from contributions to be made by retirees and the remaining $2,430.9 million representing the Organization's share of the accrued liability across all sources of funding. By comparison, the Organization's share as at 31 December 2005 was valued at $2,072.8 million. The Organization's share of benefit costs for current retirees is provided on a pay-as-you-go basis, with $105.2 million (after recosting) included under section 32, Special expenses, of the proposed programme budget for the biennium 2010-2011, plus an additional $25.2 million to be provided from extrabudgetary funding sources.

21. As is the case with pension benefits, entitlements to after-service health insurance benefits accrue over the working careers of staff members. The financing models for these two post-employment entitlements differ significantly, however. In the case of pension benefits, most costs are budgeted and funded in advance during the working years of employees and invested until paid to retirees. Pension benefit costs are therefore treated as deferred compensation and included as common staff costs in the years during which staff members render service, with pension benefits ultimately paid from a combination of contributions and investment earnings. While after-service health insurance benefits are comparable in nature, comparable financial provisions are not made during the working years of employees. Instead, such costs are budgeted and provided for in the year in which the benefits are used by those who have already retired. It is this pay-as-you-go approach that has led to the accumulation of the current $2,430.9 million in unfunded financial liabilities

related to after-service health insurance benefits. It is anticipated that these unfunded liabilities and the related budgetary requirements to meet benefit costs will continue to grow as more staff retire, increasing the population of after-service health insurance participants, and as the costs of medical services continue to rise, fuelled by advances in medical technology and prescription drugs and by increases in the utilization of medical services resulting from improved life expectancy.

22. In order to address the increasing level of unfunded liabilities related to the after-service health insurance programme, the Secretary-General, in his reports on liabilities and proposed funding (A/60/450 and Corr.1 and A/61/730), recommended the approval of a number of proposals to begin recognizing and funding the liability of the United Nations for after-service health insurance benefits, while also recommending prospective changes in eligibility and contribution levels for new recruits so as to contain future costs.

23. The General Assembly, in section III of its resolution 60/255, having considered the reports of the Secretary-General (A/60/450 and Corr.1) and of the Advisory Committee on Administrative and Budgetary Questions (A/60/7/Add.11) recognized the end-of-service accrued benefit liabilities reported by the Secretary-General and requested him to take the necessary steps to disclose those liabilities in the United Nations financial statements. As a result, $2,041.3 million in accrued liabilities for after-service health insurance related to the regular budget and extrabudgetary funds was reflected in the financial statements for the biennium ended 31 December 2007 (see A/63/5 (Vol. I)). In addition, based on roll-forward calculations made by the consulting actuaries to 30 June 2008, $409.9 million in accrued liabilities relating to peacekeeping operations was reflected in the financial statements for peacekeeping operations for the fiscal year ended 30 June 2008 (see A/63/5 (Vol. II)).

24. In its resolution 61/264, the General Assembly, having considered the report of the Secretary-General (A/61/730) and of the Advisory Committee on Administrative and Budgetary Questions (A/61/791), approved the establishment of an independent segregated special account to record after-service health insurance liabilities and account for related financial transactions, and also approved the changes in after-service health insurance provisions for new staff members recruited on or after 1 July 2007. In the same resolution, the Assembly noted the growing costs of the programme and of the funding proposals made by the Secretary-General in his report. The Assembly requested the Secretary-General to validate the accrued liabilities by using current data and applying the actuarial methodology prescribed by the International Public Sector Accounting Standards (IPSAS), and to submit to the Assembly at its sixty-third session a detailed report, with figures audited by the Board of Auditors, on the outcome of the validation and status of the liabilities and with additional information on financing options. The Assembly also requested that the Secretary-General report on measures aimed at reducing the Organization's costs related to health-care plans and provide comprehensive information and analyses based, inter alia, on the results of the actuarial valuation of the after-service health insurance programme as at 31 December 2007 with respect to funding options differentiated by funding source, and to also provide investment strategies with respect to a reserve fund. In view of the comprehensive nature of those requests and the complexity of the underlying elements, the requested report was delayed until the sixty-fourth session in order that the Secretariat might review the various components of the liability for after-service health insurance and evaluate strategies

for alternative funding and cost containment. The present report provides, for consideration by the Assembly, the additional information requested in resolution 61/264. The Assembly is requested to approve the updated recommendations to begin funding the United Nations liability for after-service health insurance benefits.

## III. Updated and validated valuation of after-service health insurance liabilities

25. The value of future after-service health insurance benefits is determined by professional actuaries, taking into account multiple factors, including life expectancy and forecasted escalation in medical costs. The future benefits are then discounted back to today's values by using an appropriate discount rate, and the resulting amount (which is the present value of future benefits) is shown as an accrued liability in the United Nations audited financial statements. The Secretary-General reported that accrued liabilities as at 31 December 2005 for the United Nations after-service health insurance benefits across all funding sources amounted to $2,072.8 million (see A/61/730). The updated actuarial value of those liabilities as at 31 December 2007 was $2,430.9 million. Those values represent the Organization's net liability after offsetting anticipated retiree contributions of $606.2 million and $722.7 million, respectively, as at 31 December 2005 and 31 December 2007. Both valuations were independently determined by a professional actuarial firm using the "projected unit credit" method for valuing pension and after-service benefits, which is the actuarial methodology prescribed by IPSAS.

26. In accordance with General Assembly resolutions 61/264 and 60/255, a special account was set up to record after-service health insurance transactions and the related liabilities. As a result of the allocation of the liability across funding sources, a total of $2,041.3 million ($1,821.4 million attributable to the regular budget and $219.9 million related to extrabudgetary funds) was reported in a new financial statement for the biennium ended 31 December 2007 (see A/63/5 (Vol. I), statement X). The liability related to peacekeeping funds of $389.6 million as at 31 December 2007 was estimated by the consulting actuaries to be $409.9 million when rolled forward to 30 June 2008 (see A/63/5 (Vol. II), statement XXIII). The figure related to peacekeeping operations for the fiscal year ended 30 June 2009 is $452.3 million.

27. In accordance with General Assembly resolution 61/264, the Board of Auditors, as part of its audit of the financial statements for the period ended 31 December 2007, validated the after-service health insurance liabilities disclosed therein. The liabilities related to the peacekeeping activities were validated as part of the audit of statements for the fiscal year ended 30 June 2008, and the updated values will also be part of the audit of the peacekeeping financial statements for the year ended 30 June 2009. As a result of their audits, the Board validated and confirmed the liabilities and their presentation in the financial statements.

28. A comparison of the components of the accrued after-service health insurance liability as at 31 December 2005 and December 2007 for all sources of funds is as follows:

(Thousands of United States dollars)

| | *Accrued liability, December 2005* | | | *Accrued liability, December 2007* | | |
|---|---|---|---|---|---|---|
| | *Gross liability* | *Retirees' share* | *Organization's share* | *Gross liability* | *Retirees' share* | *Organization's share* |
| Current retirees | 1 288 307 | 299 176 | 989 131 | 1 666 858 | 388 129 | 1 278 729 |
| Active employees currently eligible to retire | 634 401 | 141 494 | 492 907 | 634 022 | 143 341 | 490 681 |
| Active employees not yet eligible to retire | 756 289 | 165 498 | 590 791 | 852 733 | 191 273 | 661 460 |
| **Total** | **2 678 997** | **606 168** | **2 072 829** | **3 153 613** | **722 743** | **2 430 870** |

The overall increase in liability from 2005 to 2007 is about 17 per cent, reflecting an update of census data, changes in medical cost trends and updates to demographic assumptions to align with recent changes made in mortality and other assumptions by the United Nations Joint Staff Pension Fund (UNJSPF). The discount rate used to determine the present value of the future after-service health insurance liabilities was not changed from the 5.5 per cent used for 2005, as this rate was in general alignment with benchmark indices and also provided consistency and comparability with the prior liability valuation. As a part of the validation of the after-service health insurance liability, the Board of Auditors noted the use of the discount rate and indicated that the choice was in line with the principle of prudence specified in note 2 (a) (ii) to the financial statements and also enabled the liability to be more easily compared over time (A/63/5 (Vol. I) chap. II, para. 120).

29. The valuation of after-service health insurance liabilities is very sensitive to changes in the discount rate. For example, a 1 per cent decrease in the discount rate would increase the valuation of the liability by as much as 19 per cent, increasing the $2,430.9 million liability to almost $2,900 million. Similarly a 1 per cent increase in the discount rate would decrease the liability by 15 per cent, to about $2,065 million. The International Public Sector Accounting Standards require the discounting of post-employment benefit obligations through the use of discount rates based on Government and/or corporate bonds. The United Nations has historically based the discount rate on high-level corporate bonds. Corporate bond rates can, however, be fairly volatile, which can result in considerable swings in valuation. Government bond rates tend to be lower than corporate bond rates; therefore, the application of a discount rate based on Government bond rates would result in a significantly higher valuation of the after-service health insurance liability, resulting in a larger impact on the financial statements of the Organization. Given the current volatility in financial markets and the potential impact the selection of a discount rate can have on the valuation and comparability of the liability, arrangements are being made to determine whether the UNJSPF Committee of Actuaries, which consists of a number of eminent actuaries, can, in consultation with the UNJSPF Investment Management Service, validate the actuarial calculations and assumptions used to determine future after-service health insurance liability.

30. As health insurance costs continue to rise rapidly throughout the world, generally growing at rates far exceeding the rate of general inflation, so do the costs of providing health insurance benefits for active and retired staff. This trend is

expected to continue in the future, fuelled by advances in medical technology and prescription drugs and increases in utilization resulting from improved life expectancy. In the case of the United Nations, this trend is accentuated owing to the demographic composition of the insured group of active and retired staff and because the population of after-service health insurance participants will continue to expand. (Over 45 per cent of current active staff will reach at least early retirement age within the next 10 years provided they remain in service.) In addition, the recent human resources reform initiative to harmonize contracts resulted in the conversion of more than 5,500 staff with appointments of limited duration and no entitlement to after-service health insurance to fixed-term contracts with potential entitlement to the benefit. Past service under appointments of limited duration will not count towards the benefit, but all service after the conversion date will be considered for eligibility. While the ultimate impact of this initiative on the insurance liability will depend on the demographics of this group and their separation patterns, it is broadly estimated that the related increase in the accrued after-service health insurance liability will be about $18.5 million per year of completed service under the new contracts.

31. Unless funding of the after-service health insurance liability is initiated with the related funds actively invested, the annual cash requirements for the benefit will continue to increase exponentially, putting an ever-increasing strain on future budgets. In view of the anticipated growth in expenditure flows in upcoming bienniums, the Board of Auditors emphasized the need for the United Nations to adopt a funding plan related to after-service health insurance benefits. The Board accordingly included a recommendation that the Organization adopt a funding strategy for its end-of-service and post-retirement liabilities (see A/63/5 (Vol. I), chap. II, para. 67).

32. The after-service health insurance entitlement is an important contractual obligation that is part of the overall compensation package provided to staff. In order to ensure the financial viability of the programme, costs need to be managed prudently through a combination of cost-containment, cost-sharing and funding initiatives. Cost-containment and cost-sharing measures taken and in the process of being taken by the Organization are outlined in section IV below. Alternative funding strategies are described in section VI. It is only through the implementation of a long-term funding strategy and the active investment of the related funds that the benefit obligations of the programme can be met in a systematic and controlled manner over the long term.

## IV. Measures aimed at reducing the Organization's costs related to health plans and after-service health insurance

33. Cost containment is at the centre of the United Nations concerns in the context of maintaining proper health insurance coverage for staff and retirees while minimizing the financial impact to the Organization in an environment that has over the past 10 years recorded medical cost increases around the world at rates considerably higher than general inflation. Health insurance costs are controlled through the manner in which health insurance programmes are structured and through the ongoing review of provisions and benefit offerings of the various plans included in the programmes. Reviews of benefit provisions take into consideration

that the comparator civil service pays between 72 per cent and 75 per cent of the average premium for health insurance benefits, whereas the highest overall cost-sharing scheme under the United Nations plans provides for the Organization to pay for 66.67 per cent of health-care costs. While recent reviews have confirmed that the United Nations health insurance schemes continue to be in line with programmes offered by other large organizations and Government entities in terms of the health insurance protection offered and in terms of the pattern of health claims reimbursed, a number of changes have been made in the past several years to update plan provisions and contain costs. In accordance with the request made in General Assembly resolution 61/264, a general description of the cost savings derived from the structure of the programmes and an outline of some of the cost-containment initiatives undertaken within the past few years are provided below.

34. *Self-insured plans*. As noted in the previous report (A/61/730), the United Nations health benefit programmes are not insured, but are rather self-funded, which means that claims are funded directly through premium collections shared by the staff, retirees and the Organization in accordance with cost-sharing ratios approved by the General Assembly. By virtue of being self-funded, the Organization benefits from more favourable cash flows and avoids the costs associated with insurer overheads and profit margins. To illustrate, in the case of the United Nations plans based in the United States of America, between 4 per cent and 6 per cent of total plan costs relate to the administrative fees of third-party administrators. By comparison, a recent report[1] on medical cost trends in the United States indicates that 13 per cent of average health insurance premiums pay for the health insurer's expenses. Using this as an indicator, the combined annual cost savings associated with the self-funded structure of the United Nations plans that offer coverage within the United States can be estimated at over $11 million per year for the United Nations and its plan participants. Although it is not possible to estimate the savings related to plans outside the United States because similar indicators are not available, self-funded plans are recognized to have lower overall costs than insured plans.

35. *Third-party administrator arrangements*. While the health benefit programmes are self-funded, the United Nations has in general engaged outside companies as third-party administrators for the overall administration of the various medical and dental plans and for the adjudication of claims. The administrators are selected on the basis of the extent of their networks and the associated discounts, their capacity to adjudicate global claims and the level and quality of services they provide. As an example, the two administrators of the health insurance plans available for staff at United Nations Headquarters have broad-based networks in the United States that provide discounts averaging 50 to 54 per cent of medical costs, representing total combined plan savings (i.e. for the United Nations and its plan participants) of about $65 million during the 12-month period from March 2008 to February 2009. A change in the medical insurance platform arrangements made with one of the third-party administrators for a United States-based medical plan in 2009 is expected to reduce future medical claim costs by an additional $2 million per year as a result of the application of more favourable discount rates.

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[1] PricewaterhouseCoopers, Health Research Institute, *Behind the Numbers: Medical Cost Trends for 2009* (June 2008).

36. Discounts, while available, are not as significant or readily quantifiable in health insurance programmes providing coverage outside the United States. Aside from providing savings through network and other discounts, however, the use of professionals in the adjudication of health claims also ensures the confidentiality of claims information and the efficient delivery of coverage and payments to providers, and offers benefits associated with the advanced computer technology developed and utilized by the administrators, which includes fraud-detection capability. In view of these advantages and the potential savings that are expected to be realized as a result of more rigorous and standardized claims processing, the United Nations in 2009 appointed a third-party administrator for the medical insurance plan for locally recruited staff at designated duty stations away from Headquarters. The plan, which covers over 16,600 staff and retirees (plus dependants), has been administered internally by United Nations staff. The multi-phased transition to a third-party administrator for claims adjudication and related administrative services was scheduled to begin in September 2009 and to be completed in the first quarter of 2010.

37. Where third-party administrators are not utilized, such as in Geneva, the United Nations together with three other self-insured plans of Geneva-based Organizations (the World Health Organization, the International Labour Organization/International Telecommunication Union and the European Organization for Nuclear Research), have negotiated agreements with large health-care providers in the Geneva region. For the period 2008-2009, such negotiations have made it possible to contain annual health cost increases to below 2 per cent, which is very favourable considering that the current consumer price index increase is over 2 per cent and the 10-year average medical inflation rate recorded for the region was 5 per cent. The related annual cost savings for 2008 and 2009 are estimated at $352,000. The United Nations Office at Geneva endeavours to continuously expand the network of medical service providers with such agreements, including hospitals and clinics, pharmacies, laboratories, dispensaries, radiology centres and convalescence and rehabilitation centres.

38. Aside from the overall administrative structure of the United Nations health insurance programmes as noted above, the cost of those programmes to the Organization is also dependent on: (a) the number of individuals who are and will be covered by the programmes as determined by eligibility provisions; (b) the level of cost-sharing between participants and the Organization; (c) the extent of coordination of benefits between the United Nations plans and other plans, including national health insurance plans; and (d) the overall health of participants. Initiatives in each of those areas in the period 2007-2009, as briefly described below, when added to the change in insurance platform mentioned in paragraph 35, are projected to result in combined estimated annual plan savings of between $6 million and $10 million per year and contain the growth in after-service health insurance liabilities. The following initiatives have been undertaken since 2007:

(a) Eligibility provisions: In accordance with General Assembly resolution 61/264, eligibility requirements for after-service health insurance were tightened for all newly recruited staff and their dependants effective 1 July 2007 to require 10 years as opposed to 5 years of contributory service. These more stringent eligibility provisions will reduce the number of individuals who will ultimately be covered under the after-service health insurance programme, thereby containing the growth in costs. The impact on costs will depend on future hiring and retirement

patterns. On the basis of current staffing patterns, however, it is estimated that this change will contain the growth in after-service health insurance liabilities by about $104 million beginning in 2012;

(b) Cost-sharing:

(i) Pursuant to General Assembly resolution 61/264, the contribution amount for after-service health insurance benefits for staff recruited on or after 1 July 2007 was changed to be based on the application of a theoretical pension of a minimum of 25 years of service as the basis for assessing retiree contributions as opposed to using the actual number of years of service when less than 25. While difficult to project the related future savings, this change increases the contribution levels of staff who retire with less than 25 years of service and thereby reduces the Organization's share of after-service health insurance costs for those future retirees;

(ii) Effective 1 July 2008 and 1 July 2009, increases were made in co-payment, co-insurance and deductible provisions for the United Nations Headquarters medical plans to update those provisions. The related plan savings are estimated at $3 million per year;

(c) Coordination of benefits: The United Nations health insurance plans have standard coordination-of-benefit provisions that follow insurance industry methodologies for determining which insurance plan pays first when an individual is covered under a United Nations plan and another entity's health insurance plan and for ensuring that total benefit payments do not exceed 100 per cent of the total expenses incurred by the participant. In the case of retirees, the United Nations plans act as a secondary insurer when retirees join available national health insurance schemes, so retirees are encouraged to enrol in such schemes to the extent that they are eligible. Enhanced coordination of this nature is being explored, as it has the potential to ameliorate costs;

(d) Participant health: Disease management and wellness initiatives were incorporated into the United Nations health insurance plans based in the United States from December 2008. Those programmes aim to reduce the cost of health insurance by preventing or reducing the incidence of disease and by ensuring that the most effective approach to disease management is followed. While it is not possible to eliminate the occurrence of disease, wellness programmes seek to reduce the incidence of preventable conditions that are known precursors of more formidable and expensive medical conditions. In addition, disease management programmes seek to prevent such chronic diseases as asthma and congestive heart failure from degenerating and incurring ever-higher costs. These types of health management programmes, once fully matured, are reported to generate savings of between 2.5 per cent and 5.0 per cent of health costs for both active and retired staff, which translates to potential annual savings of between $3 million and $6 million to the United Nations and its active and retired plan participants, with initial cost reductions for the first year of implementation estimated at about $1 million. While similar programmes are not currently available outside the United States, preventive actions have been incorporated in a number of health insurance programmes where cost benefits were projected.

# V. Pay-as-you-go financing versus full or partial funding

39. Like salaries and pensions, after-service health insurance benefits are earned during an employee's working years. Unlike salaries and pensions, however, after-service health insurance benefits are not budgeted for in the year in which they are earned but are rather funded in the year in which the benefits are used by retirees. This financing approach is referred to as "pay as you go" because sufficient funds are provided to cover only current-year costs without consideration of accumulated liabilities or future costs. This financing arrangement, in effect, provides for the funding of current costs without the accumulation of a reserve.

40. As has been the case for other sponsors of after-service health insurance programmes, the United Nations has been using the pay-as-you-go approach since the inception of the after-service health insurance programme. For many years, the cost of health care for retirees was a relatively small portion of annual expenditures, and the pay-as-you-go funding strategy, with costs borne entirely by the regular budget, created no fiscal hardship. In recent years, however, the significant increases in health-care costs, along with the upward trend in life expectancy and the growth in the retiree population covered by after-service health insurance, have resulted in sizeable pay-as-you-go costs, which are expected to continue to increase in the years ahead, making it necessary to review the ongoing viability of this financing approach and consider potential alternatives.

41. The one advantage to pay-as-you-go financing of retiree health benefits is that it is less costly in the short term. In the longer term, however, partial or full funding of the benefits as they accrue is more economical because investment earnings serve to reduce budgetary requirements. Each year of funding immediately reduces the long-term unfunded liability, and, with active investment, the returns ultimately pay for a significant portion of retiree health-care costs. For example, the accrued liability of $2.4 billion as at 31 December 2007 could be satisfied by current budgeted contributions of $1.8 billion, assuming investment returns similar to those historically achieved by the United Nations Joint Staff Pension Fund. This is because the investment income becomes another funding source for the benefits, replacing contributions that would otherwise be required from future assessments on Member States.

42. While advantageous in the short term, pay-as-you-go financing has several disadvantages. One considerable disadvantage is that budgetary requirements increase rapidly over time as more and more staff retire and live longer and as medical inflation continues to increase at rates considerably higher than general inflation. In addition, as this approach does not fund future liabilities, the unfunded liabilities reflected on the Organization's financial statements continue to increase rapidly. As a result, the 2008-2009 biennial budget of $102.1 million for pay-as-you-go costs for all funding sources is projected to increase to over $600 million by the biennium 2036-2037, with over $11.0 billion in unfunded liabilities projected to be reflected in the United Nations financial statements by 31 December 2037. These projections in pay-as-you-go costs and unfunded liabilities are shown in figures I and II below.

Figure I
**Thirty-year projection of pay-as-you-go costs**

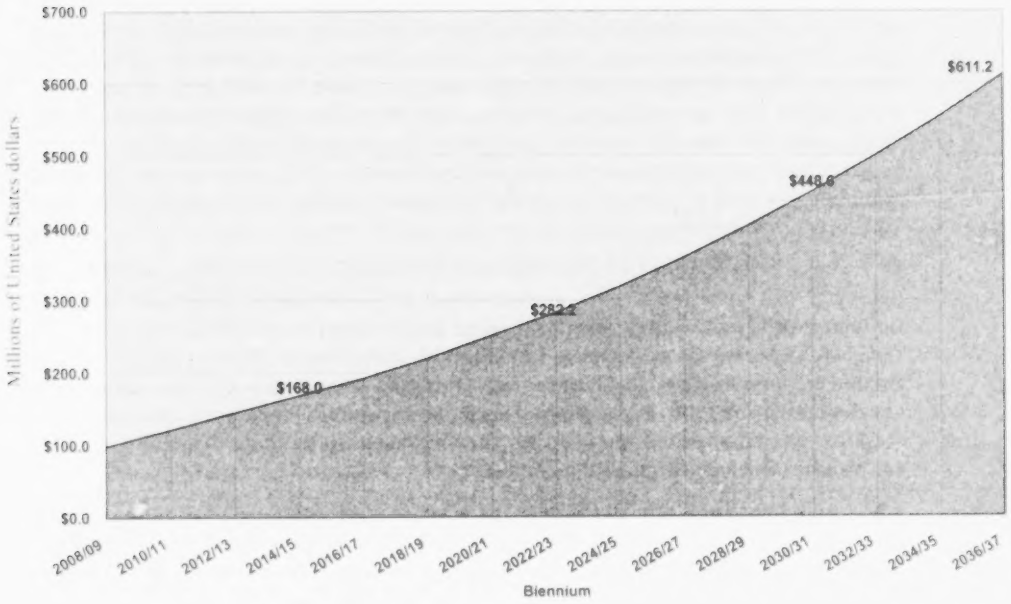
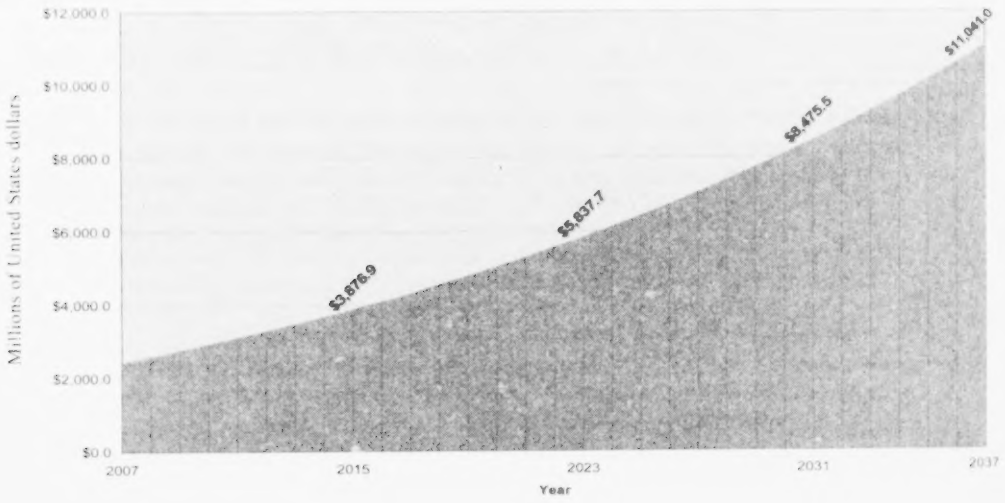



Figure II
**Thirty-year projection of accrued after-service health insurance liability**



43. The pay-as-you-go approach also results in a misalignment of costs and programme activities, as retiree benefit costs are shifted to future-year assessments on Member States for expenses classified as "special expenses" rather than being included as common staff costs during the working lives of staff members. Such special expenses do not relate to current operations at the time the payments are made since they represent benefits for former staff who rendered their services in prior years under previous budgets. This presents a particularly challenging financing issue for pay-as-you-go requirements related to staff who retired from extrabudgetary or peacekeeping activities that have since been discontinued, as in such cases the cost for retirees must either be covered under unrelated current projects and programmes or by the regular budget. This misalignment of costs would be obviated if after-service health insurance benefits were funded in the same way as pension benefits.

44. As is evident in the case of the United Nations, the pay-as-you-go financing approach has also led to the accumulation of significantly large and growing unfunded liabilities to pay for future retiree health benefits that have been earned in the past. These trends are expected to continue in the future, making pay-as-you-go financing increasingly difficult to sustain. In recognition of the anticipated accelerated growth in expenditure flows in upcoming bienniums, the Board of Auditors has emphasized the need for the Organization to adopt a funding strategy for its after-service health insurance benefits.

45. As noted above, continuation of the pay-as-you-go approach to funding retiree health benefits is problematic for a number of reasons. The alternative — partially or fully funding these benefits as they accrue — avoids or mitigates these problems, resulting in the following:

(a) Both immediate and future costs are addressed;

(b) The alignment of costs and programme activities is enhanced so that the costs of the benefits are incurred under the appropriate budget;

(c) Long-term contribution requirements by Member States are reduced as investment earnings begin to supplement budgets to fund a growing and ultimately significant portion of annual benefits;

(d) The growth of unfunded post-retirement health benefit obligations is contained from becoming an ever-greater and more significant liability to the United Nations.

46. The challenges associated with funding the large amount of liabilities that have accrued while also funding current service-related accruals are considerable, and will become exponentially greater if ignored. Alternative funding strategies, taking into consideration the availability of existing resources, the different career patterns of staff who work for different fund types and the overall resource constraints of the United Nations are noted below.

# VI. Funding strategies for after-service health insurance benefits

47. Retiring staff, regardless of funding source, have the option to elect continuation of health insurance coverage through after-service health insurance provided they meet the eligibility criteria. The total of $2,430.9 million in accrued after-service health insurance liabilities as at 31 December 2007, therefore, relates to after-service health insurance benefits that have accrued from all sources of funding. However, the full cost of after-service health insurance benefits has until recently fallen entirely on the regular budget. While this could be accommodated when the retiree population and related benefit costs were relatively minor, it is increasingly difficult to sustain given the increased significance of after-service health insurance costs related to extrabudgetary funds and peacekeeping operations and expected further increases based on additional recruitments related to the expansion of peacekeeping activities.

48. As a part of the 2007 valuation, the actuary was requested to allocate the after-service health insurance liability between the regular budget, extrabudgetary funds and peacekeeping operations to facilitate additional analyses and to appropriately reflect the liabilities in the relevant financial statements. The results of this allocation are as follows:

*Accrued after-service health insurance as at 31 December 2007*
*(Amounts in millions of United States dollars)*

| | *Regular budget* | | *Extrabudgetary* | | *Peacekeeping* | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | *Number* | *Amount* | *Number* | *Amount* | *Number* | *Amount* | *Number* | *Amount* |
| Current retirees | 6 175 | 984.8 | 642 | 102.2 | 1 202 | 191.7 | 8 019 | 1 278.7 |
| Active staff | | | | | | | | |
| Eligible to retire | 1 710 | 391.3 | 207 | 39.9 | 405 | 59.5 | 2 322 | 490.7 |
| Not yet eligible to retire | 7 722 | 445.3 | 2 421 | 77.8 | 6 607 | 138.4 | 16 750 | 661.5 |
| **Subtotal, active staff** | **9 432** | **836.6** | **2 628** | **117.7** | **7 012** | **197.9** | **19 072** | **1 152.2** |
| **Total** | **15 607** | **1 821.4** | **3 270** | **219.9** | **8 214** | **389.6** | **27 091** | **2 430.9** |

49. As would be expected, the regular budget represents the largest single component of after-service health insurance liabilities, as it includes the largest number of retirees and active staff. In order to analyse this further, the demographics of the active staff participating in the United Nations health insurance programmes was also reviewed. It has been determined that there are different demographic patterns for the staff funded by extrabudgetary and peacekeeping funds compared to the staff funded by the regular budget, as shown in the following table:

| | *Demographics of active staff participating in United Nations health insurance plans* | | | |
|---|---|---|---|---|
| | *Regular budget* | *Extrabudgetary* | *Peacekeeping* | *Total* |
| Number of active staff | 9 432 | 2 628 | 7 012 | 19 072 |
| Average age | 45.6 | 42.1 | 42.2 | 43.9 |
| Percentage younger than 45 | 46 | 63 | 61 | 54 |
| Years of service | | | | |
| Average | 11.5 | 6.6 | 6.5 | 9.0 |
| Percentage with less than 5 years | 35 | 58 | 45 | 42 |
| Eligible to retire (percentage) | | | | |
| Currently eligible | 18 | 8 | 6 | 12 |
| Additional in 5 years | 20 | 15 | 17 | 18 |

50. The census data summarized above indicates that the demographics of staff participating in the United Nations health insurance programmes are fairly comparable for staff funded by extrabudgetary and peacekeeping funds. Staff under the regular budget, however, are generally older and have, on average, rendered longer periods of service to the Organization. The data further show that 38 per cent of regular budget staff and 23 per cent of staff working for other funds are either currently eligible to retire with after-service health insurance benefits or will be eligible within the next five years, assuming they continue their service with the Organization. This indicates that there will be a progressively accelerated rate of increase in the roster of retirees enrolled in the after-service health insurance programme with a concomitant increase in cash requirements needed to cover the cost of health insurance benefits. Such increases are anticipated across all funding sources but are expected to be particularly evident for staff under the regular budget.

**Financing without building up a reserve**

51. Under the pay-as-you-go approach, the United Nations pays for its share of health insurance premiums for retirees during the year in which the coverage is provided. Under this approach, funds are not set aside to address accumulated or future costs, so a reserve is not built up. This financing methodology can either be followed by separately budgeting the related annual costs as the United Nations has done up to the present or by applying a charge against salary costs to generate the required funds.

52. Historically, all pay-as-you-go costs for after-service health insurance benefits, irrespective of the fund under which staff retired, were budgeted under the special expenses section of the regular budget. Since the biennium 2006-2007, those costs have been funded partially under special expenses section and partially under the support account for peacekeeping operations. While a viable mechanism is not available to precisely determine the funds under which retirees worked during their active service, a review of United Nations staff who retired and elected after-service health insurance benefits within the past 10 years indicates that about 15 per cent worked under peacekeeping funds, about 8 per cent under extrabudgetary funds and the remaining 77 per cent under the regular budget. Given the increasing significance of each of the components, the 2010-2011 biennial budget proposals distributed after-service health insurance pay-as-you-go costs across all three

funding sources, with $105.2 million (after recosting) included under the regular budget and an additional $8.8 million and $16.4 million, respectively, to be provided from extrabudgetary funds and peacekeeping operations.

53. As an alternative to having pay-as-you-go costs covered under the special expenses section of the regular budget and under the support accounts for extrabudgetary funds and peacekeeping operations, a charge could be applied against the cost of salaries of active staff members across all budgets. Using the allocations noted in paragraph 52, a charge of about 5.6 per cent would be required against regular budget salary costs, about 1.2 per cent against extrabudgetary salary costs and about 1.5 per cent against peacekeeping salary costs to generate sufficient funds for pay-as-you-go requirements. It should be noted, however, that this financing option would require periodic review of the adequacy of the percentage charged against each funding source to ensure that the rate charged would continue to generate adequate funds to meet the pay-as-you-go costs. As such costs can be expected to increase faster than the rate of salary increases, it can be anticipated that the rate applied against salary costs would need to be increased accordingly on an ongoing basis.

54. While applying charges against salary costs offers an alternative funding mechanism for pay-as-you-go costs, this does not eliminate or mitigate any of the problems noted under section V above related to pay-as-you-go financing. As such, and given the advantages associated with the funding model described in section V, the Secretary-General recommends the adoption of a funding policy for after-service health insurance benefits with the ultimate goal of achieving full funding of those benefits.

**Partial and full funding options**

55. The stratification of liabilities noted in paragraph 48 above, combined with the demographics of the underlying population of active staff in each group as shown in paragraph 49, enables the development of potentially different funding strategies and/or different rates chargeable against salary costs for the three different sources of funds as proposed in the various funding options outlined below. The overall goal of the funding options is aimed at: (a) stemming the increase in unfunded liabilities by partially or fully funding the annual service cost liabilities being accrued as staff members render service; (b) meeting annual benefit cost requirements of current retirees; and (c) progressively funding the $2,430.9 million in unfunded legacy liabilities that have resulted from the pay-as-you-go financing of the past. In the alternatives presented below, consideration has been given to the projected increases related to changes in the present value, the stratification of the liabilities, the fact that total claims are averaged across active and retired participants and the demographic differences identified between the active staff working under the three funding sources.

**Funding alternative 1**

56. In the first funding alternative different funding strategies are applied to various components of the accrued liability to arrive at differentiated funding goals over a 30-year period for regular budget, extrabudgetary and peacekeeping funds, taking into account apparent differences in the career patterns of staff. This structure sets an after-service health insurance liability funding goal of 75 per cent for the

regular budget, 60 per cent for extrabudgetary funds and 65 per cent for peacekeeping funds to arrive at overall funding of about 70 per cent. While the Secretary-General's ultimate goal is to arrive at full funding of the liabilities, this approach sets the initial funding targets below 100 per cent in consideration of current market volatility and its potential impact on future discount rates, liability valuations and investment returns, and in recognition of differences in the election for coverage under after-service health insurance by staff who retire under different funding sources.

57. The funding requirements for the biennium 2010-2011 under this funding alternative are projected to be about $402.7 million, chargeable as common staff costs as follows:

*Alternative 1 funding option: indicative amounts, 2010-2011*
*(Amounts in millions of United States dollars)*

| | *Regular budget* | | *Extrabudgetary* | | *Peacekeeping* | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | *Amount* | *Percentage of salary cost* | *Amount* | *Percentage of salary cost* | *Amount* | *Percentage of salary cost* | *Amount* | *Percentage of salary cost* |
| Charge against salary costs | 299.8 | 16.0 | 41.7 | 6.0 | 61.2 | 5.5 | 402.7 | 11.0 |

58. The rates chargeable against net base salary costs as noted above are expected to be reduced as assets accumulate and investment earnings begin to fund a portion of the accrued liabilities and annual benefit costs of retirees. The funding in excess of pay-as-you-go requirements generated under this alternative and the related investment income will immediately reduce the unfunded liability. Assuming that investment returns are comparable to those historically achieved by UNJSPF and that actual retirement patterns and medical trend rates align with actuarial assumptions, it is anticipated that the contribution requirements under this alternative, while initially considerably higher than pay-as-you-go costs, will be less than projected pay-as-you-go costs after about seven bienniums. Periodic adjustment of the rates applied against salary costs would need to be made to ensure that the amounts required to achieve the funding goals noted in paragraph 56 above are met.

59. This approach is presented as a funding alternative because it is actuarially sound while being flexible and providing for predictability of annual contributions and the accumulation of assets to enable partial funding of accrued liabilities from projected investment returns, and also providing for payment of benefits to current plan participants. It has a somewhat complex structure, however, requiring periodic review by the actuary to ensure that the underlying funding objectives are being achieved. In the short to medium term it will require biennial budgets that are triple the pay-as-you-go level, with requirements after about seven bienniums dropping below the pay-as-you-go requirements from that time forward.

**Funding alternative 2**

60. The second alternative is a simpler approach aimed at gradually attaining partial funding by simply doubling the pay-as-you-go requirements. In this way, half of each year's contributions are utilized for the payment of current retiree health benefits, and the balance is utilized to fund a portion of accrued liabilities.

61. Under this alternative, it is proposed that pay-as-you-go requirements for current retirees continue to be funded under the proposed programme budget for the biennium 2010-2011 under the special expenses section of the budget and under the support accounts for extrabudgetary funds and peacekeeping operations. In addition, it is proposed that charges be made against the salary costs of the active staff under each fund as common staff costs to yield amounts that, when added to the special expenses and support account components, result in double the pay-as-you-go costs. On this basis, the overall funding requirements for the biennium 2010-2011 are projected to be about $260.8 million compared to projected pay-as-you-go costs of $130.4 million. The following table reflects these requirements:

*Alternative 2 funding option: indicative amounts, 2010-2011*
*(Amounts in millions of United States dollars)*

| | *Regular budget* | | *Extrabudgetary* | | *Peacekeeping* | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | *Amount* | *Percentage of salary cost* | *Amount* | *Percentage of salary cost* | *Amount* | *Percentage of salary cost* | *Amount* | *Percentage of salary cost* |
| Special expenses and support account | 105.2 | | 8.8 | | 16.4 | | 130.4 | |
| Charges against salary costs | 105.2 | 5.6 | 8.8 | 1.2 | 16.4 | 1.5 | 130.4 | 3.5 |
| **Total** | **210.4** | | **17.6** | | **32.8** | | **260.8** | |

62. As is the case for alternative 1, the additional contributions made in excess of annual pay-as-you-go requirements and the related investment earnings thereon serve to reduce the unfunded liability. Assuming that investment returns are comparable to those historically achieved by UNJSPF and that actual retirement patterns and medical trend rates align with actuarial assumptions, it is anticipated that the contribution requirements under this alternative, while initially double the pay-as-you-go costs, will be less than future pay-as-you-go costs at some time in the future, depending on the funding goal. Based on a goal of achieving a 25 per cent funding ratio after 30 years, it is projected that contribution requirements under this alternative would be less than pay-as-you-go requirements after about five bienniums. The rates applied against salary costs would need to be adjusted periodically to ensure that the contribution requirements and funding goal are met.

63. This approach is presented as an alternative because it is simple while also providing for predictability of annual contributions and the accumulation of assets so that part of the contribution requirements will be met from investment returns while also generating adequate funds for the payment of benefits to current plan participants. In the short term, the alternative will require biennial budgets that are double the pay-as-you-go level, with requirements dropping below projected pay-as-you-go requirements after about five bienniums under a 25 per cent funding strategy. Compared to the first alternative, this option is simpler and places less demand on biennial budgets in the short term. However, to attain higher levels of funding, additional years of the doubling of pay-as-you-go costs would be required, with the result that the resource requirements under this option would be higher than the projected requirements under alternative 1 after the biennium 2022-2023.

**Funding alternative 3**

64. The third alternative combines some of the elements of the other two alternatives while also making use of funds in existing reserves. This approach

immediately reduces the unfunded liability and provides assets for investment to enable partial funding by investment returns in the future, while also providing for systematic longer-term funding. The conceptual framework of this alternative is similar to that proposed by the Secretary-General in his prior report in that it includes a one-time funding component to provide an initial infusion of funds into an independently segregated after-service health insurance reserve fund to begin to meet long-term funding goals, plus systematic funding for the long term. Balances available in reserve funds and other possible funding sources were reviewed as an alternative to requesting a special assessment from Member States for this purpose.

65. The one-time initial infusion component of this strategy is $425.0 million, comprising:

(a) The transfer of $290.0 million from unencumbered balances and miscellaneous income from the financial period 2008/09 under peacekeeping operations;

(b) The transfer of $135.0 million from existing reserve funds as follows:

(i) $51.9 million from the compensation reserve fund;

(ii) $83.1 million from the medical and dental reserves.

66. The transfer of unencumbered balances and miscellaneous income from peacekeeping operations is proposed for application towards accrued after-service health insurance liabilities attributable to active peacekeeping staff and staff who have retired from peacekeeping funds. This transfer will reduce credits that would otherwise be applied against 2010/11 budget requirements.

67. The compensation reserve was originally established in 1985 to meet requirements under appendix D to the Staff Rules for staff financed by extrabudgetary funds. Beginning in 2001, similar provisions were initiated for peacekeeping accounts. The proposed transfer of $51.9 million is based on the contribution and interest-related balances attributable to these funding sources, and will not endanger those reserves.

68. The health insurance reserves are in place to protect against the risk of adverse claim fluctuations, to address the risk of catastrophic claims and, in the case of programmes outside the United States, to provide for currency fluctuations. The proposed transfers relate to investment income that has accumulated on the reserve funds of the plans administered by United Nations Headquarters and to investment and other income related to the medical insurance plan, and will be allocated across the three funding sources. Such transfers will not endanger those reserves.

69. In addition to the one-time funding proposed above, systematic funding for the long term aimed at attaining progressive levels of funding is proposed. This includes continuing with current financing for health benefit costs relating to current retirees, with amounts continuing to be appropriated under the special expenses section of the regular budget and under the support accounts for extrabudgetary funds and peacekeeping operations. In addition, it is proposed that a charge against net salary costs be established to partially fund the accrued liabilities. The combined total of these two elements for the biennium 2010-2011 is projected to be as follows:

**Alternative 3 funding option: indicative amounts, 2010-2011**

(Amounts in millions of United States dollars)

| | *Regular budget* | | *Extrabudgetary* | | *Peacekeeping* | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | *Amount* | *Percentage of salary costs* | *Amount* | *Percentage of salary costs* | *Amount* | *Percentage of salary costs* | *Amount* | *Percentage of salary costs* |
| Special expenses and support account | 105.2 | | 8.8 | | 16.4 | | 130.4 | |
| Charge against salary costs | 172.9 | 9.6 | 18.3 | 2.6 | 11.0 | 1.0 | 202.2 | 5.5 |
| **Total** | **278.1** | | **27.1** | | **27.4** | | **332.6** | |

The special expenses and support account provisions are reflected in the 2010-2011 biennial budget proposal. The additional charges against salary costs will increase common staff costs for the related funds, with those amounts set aside to reduce the unfunded liability and increase the funding base to generate investment income.

70. The three potential after-service health insurance funding alternatives for the United Nations as described above are summarized in the following table:

(Millions of United States dollars, unless otherwise indicated)

| | *Alternative 1* | | | | *Alternative 2* | | | | *Alternative 3* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Regular budget* | *Extra-budgetary* | *Peace-keeping* | *Total* | *Regular budget* | *Extra-budgetary* | *Peace-keeping* | *Total* | *Regular budget* | *Extra-budgetary* | *Peace-keeping* | *Total* |
| 30-year funding goal | 75 | 60 | 65 | 70 | | | | 25 | 75 | 60 | 65 | 70 |
| One-time infusion | | | | | | | | | 48.5 | 63.7 | 312.8 | 425.0 |
| Charge against salary costs | | | | | | | | | | | | |
| Percentage | 16.0 | 6.0 | 5.5 | 11.0 | 5.6 | 1.2 | 1.5 | 3.5 | 9.6 | 2.6 | 1.0 | 5.5 |
| Amount | 299.8 | 41.7 | 61.2 | 402.7 | 105.2 | 8.8 | 16.4 | 130.4 | 172.9 | 18.3 | 11.0 | 202.2 |
| 2010-2011 pay-as-you-go budget proposal | 105.2 | 8.8 | 16.4 | 130.4 | 105.2 | 8.8 | 16.4 | 130.4 | 105.2 | 8.8 | 16.4 | 130.4 |
| Estimated additional 2010-2011 budgetary requirements | 194.6 | 32.9 | 44.8 | 272.3 | 105.2 | 8.8 | 16.4 | 130.4 | 172.9 | 18.3 | 11.0 | 202.2 |
| Estimated total 2010-2011 budgetary requirements | 299.8 | 41.7 | 61.2 | 402.7 | 210.4 | 17.6 | 32.8 | 260.8 | 278.1 | 27.1 | 27.4 | 332.6 |
| Short-term impact[a] (multiples of pay-as-you-go) | 2.8 | 4.7 | 3.7 | 3.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.6 | 3.1 | 1.7 | 2.6 |
| Cross-over biennium[b] | | | | 2024-2025 | | | | 2020-2021 | | | | 2024-2025 |
| Long-term impact (multiples of pay-as-you-go after cross-over) | | | | 0.33 | | | | 0.75 | | | | 0.33 |
| Complexity | | | | Complex | | | | Simple | | | | Complex |

[a] Impact on 2010-2011 biennium.

[b] Biennium during which contributions will be less than the pay-as-you-go costs projected for that time.

71. The third funding alternative is the recommended strategy, as the initial infusion of funds immediately reduces the unfunded liability and establishes a base on which to generate investment income. While initially maintaining the current funding provisions for current retirees, this option also provides for a charge against salary costs that relates directly to the accrual of after-service health insurance benefits for staff as they render service while recognizing the different career patterns of staff. Assuming transfer of the full $425 million proposed for the initial infusion, that investment returns on assets are comparable to those historically achieved by UNJSPF and that actual retirement patterns and medical trend rates align with actuarial assumptions, it is anticipated that the contribution requirements under this alternative, while initially higher than pay-as-you-go costs, can be reduced as earnings on investments begin to fund the costs, with the expectation that contribution requirements under this option will drop below projected pay-as-you-go costs in about seven bienniums. The funds accumulating under this option are expected to arrive at a funding ratio of about 70 per cent after 30 years. While structured to generate the same funding levels as alternative 1, this alternative will place less demand on future budgets than alternative 1 owing to the benefits derived from the initial infusion. It should be noted that the use of available balances has been successfully applied by some agencies, funds and programmes to partially fund their after-service health insurance liabilities. The partial funding of after-service health insurance liabilities through utilization of savings resulting from unencumbered balances and miscellaneous income from the financial period 2008/09 under peacekeeping operations will require obtaining specific approval for the suspension of regulation 5.3 of the Financial Regulations and Rules of the United Nations for that purpose.

72. Ongoing actuarial reviews will be required to determine to what extent additional funding may be required through special assessments, or through adjustments to the percentage chargeable against salary costs in order to attain the initial funding goals and subsequently maintain them and to ultimately achieve full funding of accrued after-service health insurance liabilities.

73. As noted above for each of the funding alternatives, the contribution levels required to reach the funding goals established for after-service health insurance liabilities is influenced by the level of investment income attained. Funds will be actively invested as described below so that the income derived from such investments will further fund after-service health insurance liabilities and thereby reduce the level of funding required through the Organization's contributions.

## VII. Investment strategy for the after-service health insurance reserve

74. It is generally anticipated that the after-service health insurance reserve will be invested using an appropriately balanced portfolio of equities and debt instruments to prudently maximize long-term investment returns. Discussions have been held with the UNJSPF Investment Management Service to make use of its services to actively manage after-service health insurance assets. Upon the approval by the General Assembly to initiate the funding of after-service health insurance liabilities, further discussions will be held with the Investment Management Service to develop

a detailed investment strategy tailored to meet the longer term anticipated cash-flow requirements of the segregated after-service health insurance reserve fund.

75. As is the case for UNJSPF, the primary investment goal for the after-service health insurance reserve will be to ultimately meet or exceed future benefit obligations by investing in a well-diversified asset mix. Active management of the accumulated assets will be achieved through the diversification of investments by asset class, sector, industry, currency and geographic location within acceptable risk parameters to avoid undue losses.

76. The specifics of an investment strategy tailored for after-service health insurance will, however, be dependent upon the approved level of the initial infusion of funds, the periodic subsequent contributions and the level of periodic outflows needed to provide after-service health insurance benefits. It is anticipated that the investment policy will include a strategic asset allocation element that is appropriate for a reserve for retirement health benefits, with such allocations potentially adjusted as may be necessary to lower the exposure to systemic risk and increase diversification.

77. The strategic asset allocation will, therefore, be developed to be the optimal investment strategy intended to maximize the return on investment and, as such, will require review from time to time to ensure that it maximizes the likelihood of achieving the performance objective, with benchmarks utilized to measure the effectiveness of the overall investment strategy and to gauge performance at the asset class and other levels. Upon the approval by the General Assembly of a funding strategy for after-service health insurance and the agreement by UNJSPF to provide the required investment management services for the segregated after-service health insurance reserve fund, it is anticipated that the Investment Management Service will formulate investment strategies for a long-term investment horizon that would be expected to meet the overall performance objectives of an after-service health insurance reserve fund.

## VIII. International Tribunal for the Former Yugoslavia

78. The accrued liabilities for after-service health insurance for the International Tribunal for the Former Yugoslavia amounted to $17.5 million as at 31 December 2005 (see A/61/730). The updated actuarial valuation as at 31 December 2007 indicates that the net accrued liability is estimated at $13.4 million, based on 153 active staff expected to retire with after-service health insurance benefits prior to the closing of the Tribunal and 6 current retirees. In accordance with General Assembly resolution 60/255, these liabilities have now been duly recognized and reflected in the Tribunal's financial statements for the biennium 2006-2007 and were audited and validated by the Board of Auditors.

79. Since the establishment of the Tribunal as a temporary body, the liabilities pertaining to after-service health insurance have been accruing, but no portion of the liability has been funded pending the establishment of a funding mechanism to be approved by the General Assembly. This contributed to a large degree to the concern noted by the Board of Auditors in its reports related to the financial statements for the bienniums 2004-2005 and 2006-2007 regarding the Tribunal's effective capacity to cover its liabilities for end-of-service and other post-employment liabilities (see A/61/5/Add.12 and A/63/5/Add.12), causing a related matter of emphasis to be noted in its audit opinion on the financial statements for the biennium ended

31 December 2007. In that light, and given the completion target date of 31 December 2011, immediate steps to fund the accrued liability and accrual for current service costs should be initiated. Based on an actuarial roll-forward, the accrued liabilities were valued at $15.1 million as at 31 December 2008. The proposal to the Assembly to approve the funding of the accrued liabilities and to appropriate an amount of $15.1 million in the context of the 2010-2011 budget of the Tribunal is included in section XI of the present report. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the closing costs of the Tribunal.

## IX. International Criminal Tribunal for Rwanda

80. The accrued liabilities for after-service health insurance for the International Criminal Tribunal for Rwanda amounted to $24.7 million as at 31 December 2005. The updated actuarial valuation as at 31 December 2007 indicates that the net accrued liability is estimated at $27.5 million, based on 248 active staff expected to retire with after-service health insurance benefits prior to the closing of the Tribunal and 28 current retirees. In accordance with General Assembly resolution 60/255, these liabilities have now been duly recognized and reflected in the Tribunal's financial statements for the biennium 2006-2007 (see A/63/5/Add.11) and were audited and validated by the Board of Auditors.

81. Since the establishment of the Tribunal as a temporary body, the liabilities pertaining to after-service health insurance have been accruing, but no portion of the liability has been funded pending the establishment of a funding mechanism to be approved by the General Assembly. Without related funding, recognition of the accrued liabilities resulted in a negative fund balance to be reflected in the Tribunal's financial statements, causing the Board of Auditors to note a matter of emphasis in its audit opinion on the Tribunal's financial statements for the biennium ended 31 December 2007. In that light, and given the completion target date of 31 December 2011, immediate steps to fund the accrued liability should be initiated. Based on an actuarial roll-forward, the accrued liabilities were valued at $29.7 million as at 31 December 2008. The proposal to the Assembly to approve the funding of the accrued liabilities and to appropriate an amount of $29.7 million in the context of the 2010-2011 budget of the Tribunal is included in section XI of the present report. Any shortfall in funding the liability should be included in the biennial performance report and considered as part of the closing costs of the Tribunal.

## X. Conclusions

82. In accordance with General Assembly resolution 61/264, accrued after-service health insurance liabilities of $2,041.3 million were reflected on the United Nations financial statements for the biennium 2006-2007 and an additional rolled-forward amount of $409.9 million was reflected in the financial statements for peacekeeping operations for the fiscal year ended 30 June 2008. The Board of Auditors has validated those liabilities and, given their significance and the anticipated growth in expenditure flows in upcoming bienniums, recommended that the Organization adopt a funding strategy for the liabilities. The Secretary-General concurs that it is necessary to begin putting funds aside on a regular basis in order to build a reserve

to enable related investment returns to fund a component of future contribution requirements, thereby reducing the burden on future budgets.

83. The present report provides the additional information and liability valuation update requested by the General Assembly in its resolution 61/264 and presents three potential strategies to fund a portion of the United Nations obligation to provide after-service health insurance benefits. Of the three alternatives described, the third is recommended for approval by the Assembly. That strategy does not change the overall approach defined in the prior reports of the Secretary-General, but does revise specific elements, taking into account resolution 61/264, the passage of time, the different career patterns of staff working under various funding sources and a change in available funding. The previously proposed charges against salary costs have accordingly been revised to 9.6 per cent for the regular budget, 2.6 per cent for extrabudgetary funds and 1.0 per cent for peacekeeping operations. Should the General Assembly approve the proposal to fund the United Nations liability from those charges on salary costs and from surpluses, Member States and donors would be required to pay more in assessed or voluntary contributions.

84. The present report provides updated values of the liabilities determined on the basis of the actuarial studies done as at 31 December 2007. As stated by the Secretary-General in his previous reports and reiterated herein, actuarial studies will have to be updated on an ongoing basis to refine annual funding requirements, taking into account funding levels achieved, and to reflect changes in membership, benefit entitlements and overall economic and medical cost trends. Funding thresholds, percentage of salary contributions and investment strategies will also require frequent review.

85. As noted above, the Secretary-General attaches a high degree of importance to the after-service health insurance programme as it provides a vital element of social security for retiring staff members. Given the size of the after-service health insurance liabilities, full funding of the accrued liabilities for the United Nations cannot be achieved in the short to intermediate term. As noted in annexes I and II, a number of United Nations entities have initiated the funding of their after-service health insurance liabilities through a variety of systematic and ad hoc funding methods appropriate for their situation. The Secretary-General recommends the adoption of a dedicated funding strategy for the United Nations that aims at progressively attaining increasing levels of funding to ultimately achieve full funding of accrued liabilities over the long term to ensure the financial viability of the after-service health insurance programme.

## XI. Actions to be taken by the General Assembly

86. **The actions requested to be taken by the General Assembly to fund the presently accrued liability for after-service health insurance benefits of the United Nations, the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda and to fund the annual incremental accrual for employees in the active service of those entities are as follows:**

(a) **Approve the funding of accrued after-service health insurance liabilities of the United Nations related to active and former staff under all funding sources with effect from 1 January 2010 and transfer such funds to the special account for the after-service health insurance reserve fund as follows:**

(i) **Initial funding of $290.0 million from the transfer of unencumbered balances from peacekeeping budgets for the 2008/09 financial period through the suspension of financial regulation 5.3 for this purpose;**

(ii) **Ongoing funding:**

a. **Continue biennial appropriations to cover the cost of subsidy payments in respect of current after-service health insurance participants who retired under the regular and peacekeeping budgets;**

b. **Establish charges equivalent to 9.6 per cent and 1.0 per cent to be applied respectively against the net base salary costs of staff under the regular budget and peacekeeping operations, as part of common staff costs;**

(b) **Take note of the Secretary-General's intention to fund a portion of the accrued after-service health insurance liabilities of the United Nations related to active and former staff of all funding sources with effect from 1 January 2010 and transfer such funds to the special account for the after-service health insurance reserve fund as follows:**

(i) **Initial funding of $135.0 million:**

a. **Transfer of $51.9 million from the compensation reserve funds;**

b. **Transfer of $83.1 million from the medical and dental reserve funds;**

(ii) **Ongoing funding:**

a. **Establish biennial appropriations to cover the cost of subsidy payments in respect of current after-service health insurance participants who retired under extrabudgetary funds;**

b. **Establish a charge equivalent to 2.6 per cent to be applied against the net base salary costs of staff financed under extrabudgetary funds and special accounts, as part of common staff costs;**

(c) **Approve funding of current and future after-service health insurance liabilities of the International Tribunal for the Former Yugoslavia with effect from 1 January 2010 as follows:**

(i) **Appropriate an amount of $15.1 million in the context of the 2010-2011 budget of the Tribunal to fund liabilities accrued as at 31 December 2008;**

(ii) **Approve funding of residual unfunded after-service health insurance liabilities, if any, as a part of the wind-up costs of the Tribunal;**

(d) **Approve funding of current and future after-service health insurance liabilities of the International Criminal Tribunal for Rwanda with effect from 1 January 2010 as follows:**

(i) **Appropriate an amount of $29.7 million in the context of the 2010-2011 budget of the Tribunal to fund liabilities accrued as at 31 December 2008;**

(ii) **Approve funding of residual unfunded after-service health insurance liabilities, if any, as a part of the wind-up costs of the Tribunal.**

# Annex I

## Comparative analysis of after-service health insurance liability for the United Nations system

(Millions of United States dollars)

| Organization | Total liability 31 December | | | Funding available 31 December | | | Liability recorded on the balance sheet 31 December | | | Liability not yet recorded on the balance sheet 31 December | | | Date of latest actuarial valuation if not 31 December 2008 | Pay-as-you-go current reserves |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005[a] | 2007 | 2008[b] | 2005 | 2007 | 2008[b] | 2005 | 2007 | 2008[b] | 2005 | 2007 | 2008[b] | | |
| UN[c] | 2 073 | 2 431 | 2 596 | — | — | — | — | 2 431 | 2 596 | 2 073 | — | — | 31 December 2007 | Yes |
| ICTR | 24.7 | 27.5 | 29.7 | — | — | — | — | 27.5 | 29.7 | 24.7 | — | — | 31 December 2007 | Yes |
| ICTY | 17.5 | 13.4 | 15.1 | — | — | — | — | 13.4 | 15.1 | 17.5 | — | — | 31 December 2007 | Yes |
| FAO | 526 | 576.1 | 878 | 153 | 200.7 | 141 | 173 | 576.1 | 596 | 353 | — | 282[d] | | No[d] |
| IAEA | 93 | 207 | 225 | — | — | — | — | — | — | 93 | 207 | 225 | 27 April 2007 | Yes |
| ICAO | 36.2 | 55.2 | 46.8 | — | — | — | — | — | — | 36.2 | 55.2 | 46.8 | | Yes |
| IFAD | 28 | 41 | 50 | 28 | 46 | 57 | 28 | 41 | 50 | — | — | — | 28 February 2009 | Yes |
| ILO[e] | 389 | 415 | 415 | — | — | — | — | — | — | 389 | 415.0 | 415.0 | 31 December 2007 | Yes |
| IMO[f] | not applicable | 22.1 | 22.7 | — | — | — | — | — | — | — | — | — | 1 November 2007 | Yes |
| ITC | 41.2 | 50.8 | 53.8 | — | — | — | — | 50.8 | 53.8 | 41.2 | — | — | 31 December 2007 | Yes |
| ITU[g] | 160.9 | 181.3 | 181.3 | — | — | — | — | — | — | 160.9 | 181.3 | 181.3 | 31 December 2007 | Yes |
| PAHO[h] | | | | | | | | | | | | | | |
| UNCC | 2.9 | 4.4 | 4.6 | — | — | — | — | 4.4 | 4.6 | 2.9 | — | — | 31 December 2007 | Yes |
| UNCCD | 4.4 | 5.1 | 5.7 | — | — | — | — | 5.1 | 5.7 | 4.4 | — | — | 31 December 2007 | Yes |
| UNDP | 407 | 466 | 503 | 162 | 268 | 320 | 162 | 268 | 320 | 245 | 198.0 | 183.0 | 31 December 2007 | Yes |
| UNEP | not applicable | 38.1 | 43.7 | — | — | — | not applicable | 38.1 | 43.7 | not applicable | — | — | 31 December 2007 | Yes |
| UNESCO | 601 | 614 | 614[b] | — | 30 | — | — | — | — | 601 | 614 | 614[b] | 31 December 2007 | |
| UNFCCC | 10 | 13.9 | 16.5 | — | — | — | — | 13.9 | 16.5 | 10 | — | — | 31 December 2007 | Yes |
| UNFPA | 61.6 | 72.8 | 72.8 | — | 61.2 | 61.2 | — | 72.8 | 72.8 | — | — | — | 31 December 2007 | Yes |
| UNHCR | 269 | 308 | 307.9 | — | — | — | — | 308 | 307.9 | — | — | — | 31 December 2007 | Yes |
| UNICEF | 292 | 483 | 529 | 60 | 150 | 180 | | | | 292 | 483 | 529 | 31 December 2007 | Yes |
| UN-Habitat | not applicable | 7.3 | 8.5 | | | | not applicable | 7.3 | 8.5 | | | | 31 December 2007 | Yes |
| UNIDO | 82.3 | 104.9 | 109.6 | | | | | | | 82.3 | 104.9 | 109.6 | 31 December 2007 | Yes |

| Organization | Total liability, 31 December | | | Funding available, 31 December | | | Liability recorded on the balance sheet, 31 December | | | Liability not yet recorded on the balance sheet, 31 December | | | Date of latest actuarial valuation if not 31 December 2008 | Pay-as-you-go current retirees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005[a] | 2007 | 2008[b] | 2005 | 2007 | 2008[b] | 2005 | 2007 | 2008[b] | 2005 | 2007 | 2008[b] | | |
| UNITAR | 1.9 | 2.4 | 2.7 | | | | | 2.4 | 2.7 | 1.9 | | | 31 December 2007 | Yes |
| UNJSPF | not applicable | 27.5 | 29.7 | | | | not applicable | 27.5 | 29.7 | not applicable | | | 31 December 2007 | Yes |
| UNODC | 8.9 | 14.2 | 16.3 | | | | | 14.2 | 16.3 | 8.9 | | | 31 December 2007 | Yes |
| UNOPS | 41.7 | 6 | 6 | | | | | 6 | 6 | 41.7 | | | 31 December 2007 | Yes |
| UNRWA[j] | | | | | | | | | | | | | | |
| UNU | 3.6 | 3.9 | 4.5 | | | | | 3.9 | 4.5 | 3.6 | | | 31 December 2007 | Yes |
| WTO | | 3.15 | 3.15 | | [k] | [k] | | | | | 3.15 | 3.15 | 31 December 2007 | Yes |
| UPU | not applicable | 6 | 6 | | | | | | | not applicable | 6.0 | 6.0 | 31 December 2007 | |
| WFP | 95 | 150.5 | 165.2 | 65 | 87.5 | 93.5 | 80 | 150.5 | 165.2 | 15 | | | 31 December 2007 | No[l] |
| WHO | 371 | 649 | 649 | 272 | 384 | 384 | 206 | 341 | 341 | 165 | 308 | 308.0 | 31 December 2007 | |
| WIPO | 54.12 | 74.11 | 73.87 | | | | 18.32 | 33.75 | 36.77 | 35.80 | 40.36 | 37.10 | November 2007 | Yes |
| WMO | 62.2 | 75 | 79.8 | 1.1 | 1 | 1.3 | | | | 62.2 | 75.0 | 79.8 | 31 December 2007 | Yes |
| **Total** | **5 758.1** | **7 149.7** | **7 765.0** | **741.1** | **1 228.4** | **1 268.0** | **667.3** | **4 436.7** | **4 722.5** | **5 090.8** | **2 713.0** | **3 042.5** | | |

[a] For FAO, 31 December 2006.

[b] For ILO, ITU, UNESCO, UNFPA, UNOPS, UPU and WHO, 31 December 2007.

[c] The United Nations has been paying for after-service health insurance liabilities on a pay-as-you-go basis. The General Assembly is being requested to approve an amount of $425.0 million for the initial funding of the accrued liability as well as a proposal for long-term funding arrangements.

[d] Liability not yet recorded on the balance sheet reflects use by FAO of the corridor method, as permitted under IPSAS 25, for deferring recognition of a portion of actuarial liabilities. Notes on the treatment of current retirees: FAO receives funding from member States for the following items: (i) current service cost of active staff members expected to benefit under the after-service health insurance plan (as determined by actuarial valuation); (ii) an additional appropriation of $14.2 million per biennium was made for 2004-2005, 2006-2007 and 2008-2009 as a contribution towards partial funding of the after-service health insurance past service liability (based on governing body resolution).

[e] ITU and ILO do the actuarial study every two years; data will next be available at the end of 2009.

[f] Data for 31 December 2008 are reported in the notes to the financial statements.

[g] PAHO expects to have an actuarial valuation as at 31 December 2008 completed sometime in 2009.

[h] The current policy of UNESCO is to carry out a full evaluation at the end of each biennium (next: 31 December 2009). UNESCO does not record the liability in the balance sheet but provides information in the notes to the financial statement.

[i] UNICEF Liability is reported in the notes to the financial statements.

[j] There is no provision in the financial statements of UNRWA, since the separation costs of international staff are borne by United Nations Secretariat.

[k] Provision for after-service health insurance of €400,000 for the World Trade Organization for the biennium 2010-2011 has been submitted for approval.

[l] Funds are set aside by WFP to fund these benefits.

## Acronyms

| | |
|---|---|
| UN | United Nations |
| ICTR | International Criminal Tribunal for Rwanda |
| ICTY | International Tribunal for the Former Yugoslavia |
| FAO | Food and Agriculture Organization of the United Nations |
| IAEA | International Atomic Energy Agency |
| ICAO | International Civil Aviation Organization |
| IFAD | International Fund for Agricultural Development |
| ILO | International Labour Organization |
| IMO | International Maritime Organization |
| IPSAS | International Public Sector Accounting Standards |
| ITC | International Trade Centre UNCTAD/WTO |
| ITU | International Telecommunication Union |
| PAHO | Pan American Health Organization |
| UNCC | United Nations Compensation Commission |
| UNCCD | United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa |
| UNDP | United Nations Development Programme |
| UNEP | United Nations Environment Programme |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNFCCC | United Nations Framework Convention on Climate Change |
| UNFPA | United Nations Population Fund |
| UNHCR | Office of the United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| UN-Habitat | United Nations Human Settlements Programme |
| UNIDO | United Nations Industrial Development Organization |
| UNITAR | United Nations Institute for Training and Research |
| UNJSPF | United Nations Joint Staff Pension Fund |
| UNODC | United Nations Office on Drugs and Crime |
| UNOPS | United Nations Office for Project Services |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| UNU | United Nations University |

| | |
|---|---|
| WTO | World Trade Organization |
| UPU | Universal Postal Union |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WIPO | World Intellectual Property Organization |
| WMO | World Meteorological Organization |

# Annex II

## Overview of liability recognition and funding initiatives undertaken by the United Nations system

### United Nations agencies, funds, programmes and other organizations

1. The present annex provides an overview of the estimates and details pertaining to the recognition and funding of the accrued liability and current service costs for other United Nations programmes and organizations as at 31 December 2007. The data are based on information obtained from the respective organizations.

### Food and Agriculture Organization of the United Nations

2. The actuarial valuation as at 31 December 2007 for the Food and Agriculture Organization of the United Nations (FAO) estimated an accrued past service liability of $576.1 million, of which $367.0 million related to retired staff members and $209.1 million related to active staff members. $200.8 million of the total liability was funded as at 31 December 2007 (using the market value of the investments), and the entire liability of $576.1 million was recorded in the financial statements of FAO as at 31 December 2007.

3. The principal assumptions used were a discount rate of 5.6 per cent, expected salary increases of 3.0 per cent, medical cost increases of 5.0 per cent for all future years and general inflation of 2.5 per cent. Between 1998 and 2006, FAO had accounted for the annual costs of employees in active service by accruing these costs, while accruing the prior service liability over a 30-year period. Effective 31 December 2007, FAO has accrued the entire liability. Consequently, as at 1 January 2008, FAO is recording expenses for both the current service cost and the interest cost associated with the increase in the present value of the liability owing to the passage of time.

4. Funding for the current service cost is provided in the biennial programme of work and budget. FAO is partially funding the accrued liability for prior service from any excess of investment income over the requirements for other schemes, such as the separation payments schemes and the staff compensation plan. The FAO Conference, recognizing that funding from excess investment income was insufficient to close the funding deficit, approved an additional biennial contribution from Member States of $14 million, starting with the 2004-2005 biennium. Recognizing, however, that this additional contribution is still insufficient to achieve full funding of the past service liability over the original amortization period of 30 years, the amounts to be approved for future funding will need to be reviewed in subsequent bienniums.

### International Atomic Energy Agency

5. The International Atomic Energy Agency (IAEA) conducted an actuarial valuation of post-retirement health insurance benefits using the projected unit credit cost method. The accrued liability as at 31 December 2007 was projected to be

€142 million based on assumptions of an interest rate of 4.1 per cent and a medical inflation rate of 8.5 per cent.

6. No provision has yet been made to accrue the current service costs or fund the liability; however, IAEA is currently considering various funding options and continues to estimate and disclose those liabilities. The manner in which the Agency ultimately deals with this issue will be heavily influenced by decisions taken in the General Assembly relative to proposals by the United Nations Secretariat on treatment of United Nations after-service health insurance liabilities

## International Civil Aviation Organization

7. An actuarial study for the International Civil Aviation Organization (ICAO) estimated the after-service health benefits liability as at 31 December 2007 to be $55.2 million. The study was performed in accordance with the professional standards of the Canadian Institute of Actuaries, the International Accounting Standards and generally accepted actuarial principles.

8. ICAO does not accrue the liability. Payments made with regard to after-service health benefits in each financial period are reported as expenditure for that period. The Organization has not funded the liability, and this issue has been brought to the attention of its governing body for consideration. The estimated liability is disclosed as a note to the financial statements.

## International Fund for Agricultural Development

9. Since 2006, the International Fund for Agricultural Development (IFAD) has had a stand-alone actuarial valuation performed. The actuarial valuation estimated a total accrued liability of $41.4 million as at 31 December 2007. IFAD has fully funded related assets, which are held in a legally separate trust fund amounting to some $46.2 million. Beginning in 2006, IFAD has accounted for the full annual cost of the current service cost as current-year expenditure even though it exceeds the related provisions in the administrative budget. Any actuarial losses incremental to the current service costs are recorded in the income statement outside of the administrative budget.

## International Labour Organization and International Telecommunication Union

10. The International Labour Organization (ILO) and the International Telecommunication Union (ITU) share a staff health insurance fund. The latest actuarial valuation in accordance with International Accounting Standard 19 carried out at the end of 2007 determined the liability of ILO for after-service medical benefits for eligible staff as at 31 December 2007. The principal actuarial assumptions were medical cost inflation of 5 per cent from 2004, decreasing to 3 per cent over 10 years, a discount rate of 4 per cent and price inflation of 2 per cent.

11. The accrued liability of ILO as at 31 December 2007 is estimated at $415 million. ILO expenses payments of benefits in respect of retired staff on a pay-

as-you-go basis, charging the regular budget for premiums in the financial period in which they are paid. ILO has made no provision for current service costs and has no plans to fund the accrued liability, pending decisions by the General Assembly that would inform discussions in its Governing Body.

12. The accrued liability of ITU as at 31 December 2007 is estimated at $181.3 million. ITU expenses payments of benefits to retired staff on a pay-as-you-go basis, charging its contributions to the staff health insurance fund in the biennium that they are paid, and makes no provision for current service costs of active staff members. There are no plans to fund the accrued liability at this time.

## International Trade Centre UNCTAD/WTO

13. A joint actuarial study carried out in 2008 for several entities by Mercer in accordance with relevant pronouncements estimated the accrued liability for the International Trade Centre UNCTAD/WTO (ITC) as at 31 December 2007 to be $50.8 million. ITC has not yet put any funding measures in place. It plans to establish, in consultation with the World Trade Organization, a funding mechanism based on the decision of the General Assembly with respect to the United Nations proposals put forward in the present report.

## Office of the United Nations High Commissioner for Refugees

14. The actuarial report for the Office of the United Nations High Commissioner for Refugees (UNHCR) estimates accrued liabilities as at 31 December 2007 of $307.9 million, made up of $95.6 million for current retirees, $81.6 million for active staff currently eligible to retire and $130.7 million for active staff not yet eligible to retire.

15. Current subsidy relating to retiree premiums is included in the corresponding annual programme budget, and the actual costs incurred in each financial period are reported as current-year expenditure. UNHCR has not created any reserve to fund the liability for after-service medical benefits, nor are any plans in place to accrue the estimated service costs.

## United Nations Children's Fund

16. The actuarial valuation, which was a part of the joint study by Mercer, estimates the accrued liability (net of offset of retiree contributions) of the United Nations Children's Fund (UNICEF) as at 31 December 2007 at $482.7 million. In 2005, UNICEF established a reserve of $90 million to partially fund the estimated liability.

17. UNICEF is gradually increasing its funded reserve for after-service health insurance from its regular resources. By the end of 2007, the funded reserve was $150 million, against a net accrued liability estimated to be $482.7 million. The UNICEF Executive Board has approved the gradual increase of this funded reserve to $210 million by the end of the current medium-term strategic plan in 2009.

## United Nations Convention to Combat Desertification

18. The secretariat of the United Nations Convention to Combat Desertification participated in the joint actuarial study completed by Mercer, which shows an estimated liability of $5.1 million as at 31 December 2007. The Convention secretariat has not yet funded this liability and pays for current retiree benefits on a pay-as-you-go basis. It has, for the first time, accrued the liability as at 31 December 2007.

## United Nations Development Programme

19. The joint actuarial study completed by Mercer estimated the accrued liability of the United Nations Development Programme (UNDP) for after-service health benefits as at 31 December 2007 to be $466.2 million. UNDP is funding the liability from regular and other resources and from interest earned on the after-service health insurance reserve balance. As at 31 December 2007, the after-service health insurance reserve totalled $267.9 million. The amount set aside is over and above disbursements by UNDP for after-service health insurance for current retirees, which were included as part of the biennial support budget expenditure.

## United Nations Educational, Scientific and Cultural Organization

20. The report of the actuarial consultants for the United Nations Educational, Scientific and Cultural Organization (UNESCO) estimates an accrued liability for after-service health benefits as at 31 December 2007 of $614 million.

21. The figure results from a comprehensive actuarial study carried out by Mercer in accordance with relevant pronouncements.

22. There are no plans for funding the liability or any proposals to recognize current service costs for the current biennium; however, a paper explaining the subject and proposing possible funding options was scheduled to be presented to the Executive Board in October 2008. UNESCO provides resources to pay current retiree premiums in a specific budget line during the year of operation.

## United Nations Environment Programme

23. The actuarial study for the United Nations Environment Programme (UNEP) conducted as a part of the joint study by Mercer shows an estimated accrued liability (net of offset from retiree contributions) of $38.1 million as at 31 December 2007. UNEP has not funded these accrued liabilities. Expenditures are charged against the budget appropriations of the periods when actual payments are made for current retiree benefits.

## United Nations Framework Convention on Climate Change

24. The United Nations Framework Convention on Climate Change (UNFCCC) secretariat provides employees who have met certain eligibility requirements with health-care benefits after they retire. The actuarial cost method is projected unit

credit. The accrued gross liability as at 31 December 2007 amounted to $18.5 million, which was offset by contributions from retirees of $4.6 million, leaving a net accrued liability of $13.9 million. Of this amount, $5.3 million related to current retirees and active employees currently eligible to retire, while $8.6 million related to active employees not yet eligible to retire.

25. The UNFCCC secretariat has been paying the benefits of the after-service health insurance on a pay-as-you-go basis within the recurrent expenditure budget. No assets have been segregated and restricted to provide for post-retirement benefits. If the UNFCCC secretariat used the accrual method of accounting, there would have been an annual expense of $1.6 million in 2007 and $2.7 million in 2008.

26. Although the UNFCCC secretariat is not accruing the liability for after-service health insurance, full disclosure has been made in the notes to the financial statements as part of the main accounts, and the liability has been offset against the accumulated reserves. There were adequate reserves in all funds to cover the accrued liabilities as at 31 December 2007.

## United Nations Human Settlements Programme

27. The actuarial study for the United Nations Human Settlements Programme (UN-Habitat) conducted as a part of the joint study by Mercer shows an estimated accrued liability (net of offset from retiree contributions) of $7.3 million as at 31 December 2007. UN-Habitat has not funded these accrued liabilities. Expenditures are charged against the budget appropriations of the periods when actual payments are made for current retiree benefits.

## United Nations Industrial Development Organization

28. On the basis of an actuarial study carried out as part of the joint study in 2008, the estimated accrued liability of the United Nations Industrial Development Organization is $104.9 million (equivalent to €71.9 million). There has been no provision for funding the liability, nor are there any plans to expense current-service costs in the present biennium. Instead, actual payments are recorded on a pay-as-you-go basis and reported as expenditures of the current period.

## United Nations Institute for Training and Research

29. The net accrued liability as at 31 December 2007 attributable to the United Nations Institute for Training and Research (UNITAR) is determined to be $2.4 million. UNITAR has fully recognized this liability in the financial statements by establishing a fund specifically for after-service health insurance; however, as at 31 December 2007 this fund was in deficit by $2.4 million. The Institute plans to establish a funding mechanism in line with that approved by the General Assembly for the United Nations.

## United Nations Joint Staff Pension Fund

30. An actuarial study of the accumulated liabilities for after-service health benefits for active and retired staff of the United Nations Joint Staff Pension Fund as at 31 December 2007 was conducted by an independent consulting actuary. No previous valuation had been conducted.

## United Nations Office for Project Services

31. The United Nations Office for Project Services (UNOPS) engaged an independent consulting actuary to carry out an actuarial valuation of the after-service health benefits. The result of the valuation showed that the value of expected claims for retirees and active staff (both national and international, funded from the administrative budget) as at 31 December 2007 was $5.99 million.

32. UNOPS has fully accrued this liability as at 31 December 2007 and is in the process of taking steps to fund it.

## United Nations Population Fund

33. The actuarial study for the United Nations Population Fund (UNFPA) conducted as a part of the joint study by Mercer shows an estimated accrued liability (net of offset from retiree contributions) of $72.8 million as at 31 December 2007. UNFPA has fully accrued this liability.

34. In the 2006-2007 biennium, UNFPA funded $61.2 million of the above liability, and only $11.6 million remained unfunded at the end of 2007. Simultaneously, UNFPA has introduced a 4 per cent charge on payroll to partially fund the current portion of after-service health insurance. UNFPA is aiming to be fully funded by the end of 2010.

35. The funding for after-service health insurance was done through the following sources:

(a) Unspent carried over funds: $52.0 million

(b) Payroll charge: $7.5 million

(c) Interest earned on reserve funds: $1.7 million.

## United Nations University

36. The net accrued liability of the United Nations University as at 31 December 2007 as determined by the actuarial study was $3.9 million. The University has not yet funded any portion of the liability but plans to establish a funding mechanism based on the decision of the General Assembly with respect to the United Nations proposals put forward in the present report.

## World Food Programme

37. After-service medical benefits liabilities of the World Food Programme (WFP) were determined by consulting professional actuaries, using economic and demographic assumptions that were specific to WFP to determine the value of these after-service liabilities. The 2007 actuarial valuation report concluded that the after-service medical benefits accrued liability balance as at 31 December 2007 was $150.5 million. The unfunded liability was $59.8 million. The WFP secretariat is exploring options for funding these liabilities which, once determined, will be presented to the WFP Executive Board for approval.

## World Health Organization

38. The World Health Organization (WHO) was the first organization to recognize the need to make provisions for post-retirement benefits and in this context funded part of the unfunded accrued liability by special annual contributions starting in 1989. The Organization established a reserve under paragraph 470.2 of the rules of the staff health insurance plan. As at 31 December 2007, the assets of the plan amounted to $383.6 million, of which $341.4 million are to be allocated to the specific reserve established under paragraph 470.2.

39. The WHO actuarial study dates from July 2008, based on December 2007 data. The present value of future after-service health insurance benefits following International Public Sector Accounting Standards methodology, using a discount rate of 4 per cent in Europe and 6.5 per cent in the U.S. and other countries, was estimated at $553.0 million with respect to retirees and $502.7 million for active staff (for a global estimated liability of $1,055.7 million as at 31 December 2007). The related WHO accrued liability as at 31 December 2007 was $649 million.

40. An asset/liability study was also conducted in 2008 to assist the Organization in its evaluation of the investment strategy for the plan's assets.

## World Intellectual Property Organization

41. The liability for post-service medical benefits for staff members was estimated at SwF 54.7 million at the end of 2005 (based on an actuarial evaluation carried out in December 2005) and at SwF 64.6 million at the end of 2007 (based on an actuarial evaluation carried out in November 2007). The separation from service benefits were estimated at SwF 16.2 million at the end of 2005, also based on an evaluation carried out in December 2005, and at SwF 18.4 million at the end of 2007, again following a study conducted in November 2007. These figures are disclosed in the notes to the financial statements.

42. Following the approval of the adoption of the International Public Sector Accounting Standards as from 2010, the Organization has decided to increase the amount of its provision, which stood at SwF 24 million as at 31 December 2005, by maintaining the policy followed in the 2004-2005 biennium and adding an amount equivalent to 6 per cent of biennial staff expenditure for the 2006-2007 period, thus increasing the provision to SwF 37.8 million as at 31 December 2007.

## World Meteorological Organization

43. An actuarial study of the accumulated liabilities for after-service health benefits for the World Meteorological Organization (WMO) as at 31 December 2007 estimated $44.0 million for retired staff and $31.2 million for active staff. The amounts have not been included in the financial statements but were disclosed in the notes to the statements. WMO makes its contributions to after-service medical costs on a pay-as-you-go basis by funding a reserve for post-retirement benefits with a 2 per cent charge on payroll costs. The balance of the reserve amounted to SwF 1.4 million ($1.2 million) as at 31 December 2007.

## Organizations for which no valuations have been conducted

44. No valuation has been conducted to show liabilities as at 31 December 2007 for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the World Trade Organization. UNRWA does not make any provisions/estimating for after-service health insurance liabilities; international staff positions are currently funded by the regular budget of the United Nations.

# Annex III

## United Nations websites providing information on health insurance plans

| Insurance plan | Internet location |
|---|---|
| (a) Headquarters programmes | http://www.un.org/insurance (under forms and circulars) |
| (i) Aetna Open Choice Preferred Provider Organization | |
| (ii) Empire Blue Cross Blue Shield Preferred Provider Organization | |
| (iii) Health Insurance Plan of New York | |
| (iv) CIGNA Dental Preferred Provider Organization | |
| (b) Van Breda International Insurance Programme | http://www.un.org/insurance (under forms and circulars) |
| (c) Medical insurance plan for locally recruited staff at designated duty stations away from Headquarters | http://www.un.org/insurance (under forms and circulars) |
| (d) United Nations Staff Mutual Insurance Society against Sickness and Accident | http://157.150.64.200/assmut/Statutes.pdf |
| (e) United Nations Office at Vienna/United Nations Industrial Development Organization Group Medical Insurance with Van Breda | https://www.unodc.org/hrsa/finance/personal_insurances.html |
| (f) Austrian Sickness Insurance Scheme (Wiener Gebietskrankenkasse) | https://www.unodc.org/hrsa/finance/personal_insurances.html |

# Annex IV

## Glossary of terms

**Accrued liability.** The actuarial present value of benefits attributed to employee service rendered to a particular date. Prior to an employee's full eligibility date, the accumulated post-retirement benefit obligation as of a particular date for an employee is the portion of the expected post-retirement benefit obligation attributed to the employee's service rendered to that date. On and after the full eligibility date, the accumulated and expected post-retirement benefit obligation for an employee is the same.

**Accrual basis.** The accrual basis of accounting for revenue in each financial period recognizes income when it is earned or due and not when it is received. Accrual of expenditure in each financial period means that costs are recognized when obligations and/or liabilities are incurred and not when payments are made.

**Actuarial present value.** The current worth (on the valuation date) of an amount or series of amounts payable in the future. The actuarial present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

**Actuarial valuation.** The determination of the accrued liability at the end of a financial period based on certain actuarial assumptions, discount rates and plan provisions.

**Amortization.** The process of recognizing unfunded liabilities over several financial periods.

**Benefits.** Health-care benefits or coverage to which participants in the after-service health insurance plan are entitled.

**Cash basis.** Accounting for benefits by expensing the costs when benefits are actually paid.

**Current service costs.** The cost of post-retirement benefits earned during the current period of employee active service.

**Discount rates.** The estimated interest rates at which post-retirement benefits could be effectively settled. Assumed discount rates are used in the measurement of the present value of future post-retirement benefit obligations.

**Funded liability.** The accrued liability for which the Organization sets funds aside to pay benefits at a future date.

**Health-care trend rates.** Assumptions about the annual rate of change in the cost of health-care benefits.

**Interest cost.** The accrual of interest on the accumulated post-retirement benefit obligation owing to the passage of time.

**Pay as you go.** To budget and fund the cost that is due and payable in respect of current retirees for the current period only. It is to be distinguished from pre-funding, which will build assets to pay liabilities in advance of when they are due and payable.

**Post-retirement benefits.** Benefits provided by the Organization other than pension income to employees who retire from the system.

**Post-retirement benefit fund.** A specific account set up for asset accumulation for the purpose of paying post-retirement benefits when they are due. These assets are generally restricted to paying post-retirement benefits.

**Projected unit credit method (accrued benefit method)** — An actuarial valuation method used to determine the present value of the defined benefit obligations and the related current and prior service cost. It measures each unit of benefit separately to build up the final obligation.

### Accounting standards

**Financial Accounting Standard 106** requires advance recognition of liabilities for future payment of post-retirement benefits that are to be accrued over the working life of the employees. Under Standard 106, annual recognition of the liability requires expensing the service cost, interest cost and amortization amounts during the period; accrual basis of accounting is applied.

**International Accounting Standard 19** requires an organization to account for its obligation to pay benefits and to determine the present value of the obligation using the projected unit credit method and assumptions relating to demographics and financial variables.

**International Public Sector Accounting Standard 25 (Employee Benefits)** is the relevant International Public Sector Accounting Standard that is drawn primarily from International Accounting Standard 19, on employee benefits. The requirements are similar to those of International Accounting Standard 19 cited above, with only two significant differences relevant to the accounting and reporting of defined benefit plans. The first difference is the discount rate applied when valuing long-term liabilities. Whereas International Accounting Standard 19 requires an entity to apply a discount rate based on yields on high-quality corporate bonds, International Public Sector Accounting Standard 25 requires that an entity apply a discount rate that reflects the time value of money and leaves the selection of the appropriate financial instrument to the judgement of the entity, noting that in some situations market yields on government bonds will provide the best approximation for the time value of money. The second difference is the treatment of first-time adoption adjustments for defined benefit plans. Whereas International Accounting Standard 19 allows recognition of the associated liability over a period of up to five years, International Public Sector Accounting Standard 25 requires recognition of the entire liability in the opening accumulated surplus/deficit.